THE POWER ELITE:

The Treasury and New Zealand Business Roundtable's Power in the Formation of the Privatisation Programme (1984 - 1987) : A Theoretical Analysis

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Abstract

This thesis has two primary aims. The first is to more fully understand the power that the Treasury and New Zealand Business Roundtable (NZBRT) had in the formation of the privatisation programme. The second aim is to test the bureaucratic, rational-actor and economic elite models to see how effectively each can identify and explain the nature and degree of power that these groups possessed. To do this, the bureaucratic and bounded rationality models are first applied to the Treasury's relationship with the Minister of Finance. The economic elite model is then applied to the NZBRT's relationship with the Minister.

This thesis concludes with four significant findings. First, in light of the evidence presented, the power that the Treasury and NZBRT had in the formation of the privatisation programme is argued to have been less dominant than conventional wisdom has suggested. Second, the models are only of limited use in analysing the power held by both organisations. Third, significant analytical difficulties exist when attempting to view the concept of power in non-conflicting situations. Finally, power is found to be both an elusive and multi-dimensional concept; it can operate in a non-conflictual, covert and impersonal context. The political resources used by groups can be used not only to dominate and control, but also to facilitate and reinforce the status quo.

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Introduction

The Purpose of This Study

The fourth Labour Government, during the six years in office, is argued to have adopted a distinctly "elitist" style in the process of political decision-making. Rather than allowing a high degree of popular participation and corporatist consultation with interest groups, it was supposedly influenced by a small group of public policy advisers and businesspeople.[1] These individuals are identified as belonging primarily to two organisations - the Treasury and the New Zealand Business Roundtable (NZBRT). Thus, both these organisations are argued to have possessed a significant degree of *political power* in the formation of public policy, dictating both the direction and pace of change in the New Zealand economy. The result of this, so the argument goes, is that the values of the few have been systematically imposed on the many.

With this in mind, and under the umbrella of this elitist assumption, the nature of this enquiry is twofold. First, it seeks to more fully understand the power that the Treasury and NZBRT had in the formation of public policy. The central questions to answer here are: were these groups as "powerful" as some political commentators have implied? In what ways can this power be systematically observed and analysed? In the process of answering these questions, this enquiry also seeks to "test" a number of theoretical frameworks. In doing so, the aim here is to see how effectively each model can identify and explain the nature and degree of power that these groups possessed.

To facilitate both these aims, the privatisation programme is used as a case study. More specifically, this thesis looks at the Treasury and NZBRT's impact on the programme's decision-making process *prior* to 17 December 1987 - the day the Government announced that it would implement the programme as an "on-going" policy initiative. In other words, this study seeks to understand the power that these two organisations had in the *formation of the privatisation programme.* For the purposes of this enquiry, the choice of case study is both stimulating and appropriate because the privatisation programme is considered to be one of the Government's most significant - and controversial - policy initiatives. Moreover, it is a policy in which, on one hand, a large number of individuals and groups are argued to have been excluded from the decision-making process, while on the other, the Treasury and NZBRT are purported to have been "profoundly influential." [2]

Summary of Chapters

This thesis is conducted in five chapters. Chapter one theoretically examines the distribution of power among groups in society. It starts by briefly examining the concept of power, turning then to consider the pluralist and elitist models; two divergently opposed theories explaining how power is distributed among groups in society. Finally, the three theoretical frameworks that will be tested with reference to the Treasury and NZBRT are discussed; namely, the bureaucratic, bounded rationality and economic elite models.

The purpose of chapter two is to "set the scene" prior to the operationalisation of these models. First, it describes the privatisation programme's background, explaining the events leading up to, and the rationale behind the Government's decision to privatise the State Owned Enterprises (SOEs). Second, and by way of three observations, the discussion examines the elitist assumption upon which this study is based. In doing so, it shows how the masses were totally excluded from the decision-making process. With the elitist assumption established, the study then proceeds to focus on the few groups that are argued to have been involved - the Treasury and NZBRT.

Chapter three attempts to analyse the power that the Treasury had in the formation of the privatisation programme. To do this, the bureaucratic and bounded rationality models are operationalised with a focus on the Treasury's relationship with the Minister of Finance, Roger Douglas. The criteria contained in both models is found to be highly applicable in this study, providing an outcome suggesting that the Treasury had "captured" Douglas's thinking. However, this conclusion is argued to overstate the power that the Department actually had. Accordingly, a number of other factors are briefly considered in order to present a more "balanced" analysis. In the light of these additional findings, the chapter concludes by suggesting that it was the Minister and not the Treasury who was in control of the decision-making process.

Chapter four operationalises the economic elite model in the attempt to analyse the nature and degree of the NZBRT's power. However, due to the lack of observable contact between the NZBRT and Douglas, it is difficult to effectively apply the model's criteria as it views only direct, overt influence. It is therefore argued to provide a largely inconclusive outcome;

while the NZBRT may have significantly influenced Douglas's thinking, the exact means and extent to which this was done can only be speculated upon. To provide more of an insight to a seemingly distant and impersonal relationship, the views of Charles Lindblom are briefly applied. In doing so, the discussion identifies a number of ways in which the NZBRT could have influenced Douglas's thinking without directly impacting upon the decision-making process.

Chapter five examines this study's findings and makes a number of concluding remarks. First, it discusses the elitist assumption underpinning this study. The utility of the bureaucratic, bounded rationality and economic elite models is then considered. Each is argued to have been largely ineffective in fulfilling their primary aim. The discussion then turns to the difficulties involved in systematically analysing the concept of political power - particularly in situations where there is little observable conflict. It also suggests that power is multi-dimensional in nature. Accordingly, it should not then be viewed merely in a conflictual, overt and interpersonal context. As this study reveals, an actor's political resources can not only be used to dominate and control the decision-making process, but also to facilitate and reinforce the status quo.

Endnotes:

1 A large number of books and articles have been published discussing the influence of the Treasury and business community. For a good general discussion of their influence, see, in particular, Jonathan Boston., "The Treasury and the Organisation of Economic Advice: Some International Comparisons", in Brian Easton., (Ed.) The Making of Rogernomics, (Auckland: Auckland University Press, 1989). Also, Brian S. Roper., "Limits to the State: Economic Crisis, the Politics of Business and Supply-side Economic Policy in New Zealand", Paper delivered at the APSA Annual Conference, University of New South Wales, Sydney, September 1989. See also, Bruce Jesson., Behind the Mirror Glass: The Growth of Wealth and Power in New Zealand in the 1980s , (Auckland: Penguin, 1987), especially, pp. 7-12, 121-134, 154-171.

2 Colin Clark, Wellington, 23 August, 1990.

Chapter One

Interest Groups and the Distribution of Power: A Theoretical Approach

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Introduction

The purpose of this chapter is to discuss the conceptual themes that underpin this study. To do this, the discussion falls into three parts. The first will briefly examine the concept of power, identifying a variety of definitions that have been created in an attempt to more fully understand how it operates in the political system. Part two will consider the distribution of power among groups in society. In doing so, the discussion examines the pluralist and elitist models, two diverging interpretations explaining how power is distributed among these groups. As this study adopts the elitist perspective for its own analysis, part three outlines the economic elite, bureaucratic and bounded rationality models; three theoretical frameworks which highlight the power used by a select few groups in the decision-making process.

The Elusive and Multi-Dimensional Nature of Power

In beginning any theoretical discussion on group interaction in the political process, the concept of power must - albeit briefly- be considered. It is not the intention here to enter into a full discussion on what power is; such a pursuit would entail a herculean effort and is thus clearly beyond the intended scope of this study. Rather, the purpose is merely to identify a number of different conceptions of power that have been created in the attempt to more fully understand its nature.

What exactly *is* power? Such a question is not easily answered. Indeed, this is reflected in the fact that considerable debate has raged among social scientists about how the concept should be defined and what the most appropriate methods for the study of it are. A succinct discussion of this debate is found in a study entitled *Power: A Radical View* by Stephen Lukes. In it, he suggests that power may be best understood as having three dimensions. Each will be briefly outlined here.

The *one- dimensional view* of power is essentially based upon the traditional pluralistic approach, developed most particularly by Robert Dahl and Nelson Polsby.[1] In an influential definition, Dahl states that " A has power over B to the extent that he can get B to do something that B would not otherwise do."[2] The key to operationalising this definition, argue the pluralists, lies in focusing on the observable behaviour of groups actively participating in the decision-making process. Thus, Dahl states that power can only be analysed "after careful examination of...concrete decisions."[3] The one - dimensional view also asserts that there must be observable conflict between two actors before a power relationship can be analysed. If there is no conflict between groups, so the argument goes, then the experimental test of power attributions cannot take place.[4]

The *two - dimensional view* of power, most recently articulated by Peter Bachrach and Morton Baratz, posits that the power of an actor largely depends on his or her ability to - consciously or unconsciously - create or reinforce barriers to the public airing of policy conflicts.[5] Therefore, power is exercised over not only participants within the decision-making process but also towards the exclusion of certain participants and issues altogether. Political organisations are therefore assumed to develop a "mobilisation of bias", favouring the exploitation of certain kinds of conflict whilst suppressing others.[6] Accordingly, a satisfactory analysis of two-dimensional power involves the examination of both decision *and* non-decision making. As Michael Parenti observes: "One of the most important aspects of power...[is] not to prevail in a struggle but to pre-determine the agenda of struggle - to determine whether certain questions ever reach the competition stage."[7]

Bachrach and Baratz's analysis has one significant feature in common with the pluralists: namely, the stress on observable conflict. Just as the pluralists maintain that power in decision-making only shows up where there is conflict, Bachrach and Baratz assume the same to be true in cases of non decision-making; if there is no conflict, it can only be presumed that there is consensus on the prevailing allocation of values - in which case non-decision making is impossible.[8] Moreover, they argue that if universal acquiescence appears to exist in the status quo, then it is impossible to empirically determine whether the consensus is genuine or instead enforced through non-decision making.[9]

The *three - dimensional view* of power is considered to be the most radical of the three approaches. Here, Lukes states that "A [exercises] power over B by getting [B] to do what [B] does not want to do, but *[A] also exercises power over [B] by influencing, shaping or determining [B's] very wants.*"[10] Thus the bias of the system can be mobilised, recreated and reinforced in ways that are neither consciously chosen nor which are the intended result of particular individuals' choices. Such a view is developed by Parenti who argues that power can be seen as a systemic force surrounding - if not permeating - any specific pursuit of goals. Decisions, he states, "take place in a social and systemic context that prefigures what will and will not be considered a policy choice."[11] In other words, the social system's structures, institutions, long standing beliefs and the imperatives of the economy all can help to shape policy outcomes in ways that are not easily understood even by many decision-makers.[12]

The three - dimensional view also argues that power may operate in the absence of observable conflict. Lukes provides two reasons explaining why conflict is not a necessary precondition. First, two types of power, manipulation and authority, may not necessarily involve conflict, because, as even Bachrach and Baratz acknowledge, both these power types can be conceived of as "agreement based upon reason."[13] Second, if an actor has the ability to shape and influence another's wants, then it follows that conflict can be prevented from arising in the first place. As Lukes concludes:

> [It is the most] supreme and...insidious exercise of power to prevent people, to whatever degree, from having grievances by shaping their perceptions, cognitions and preferences in such a way that they accept their role in the existing order of things...To assume that the absence of grievance equals genuine consensus is simply to rule out the possibility of false or manipulated consensus by definitional fiat.[14]

In summary, a number of comments can be drawn together from these three views of power. First, and as the above discussion suggests, while power can be seen in every human and social relationship, it is nevertheless, an *amorphic and elusive concept*. Accordingly, the systematic study of power can be a frustrating task. As Kaufman and Jones observed:

> There is an elusiveness about power that endows it with an almost ghostly quality...We "know" what it is, yet we encounter endless difficulties in trying to define it...It is as abstract as time yet as real as a firing squad.[15]

Second, power can be seen to involve a *relationship* between an actor (such as a person, group or collective) and the environment. Third, being "powerful" refers to the ability of these actors to *achieve their goals* . In other words, and as Parenti states, it "is the ability to get what one wants."[16] Finally, and as the discussion here has alluded, the concept of power is *multi-dimensional.* In accordance with whichever perspective is adopted, power can be seen to operate in a variety of different relationships - ranging from those that are overtly conflictual to ones in which no apparent conflict can be observed. This study seeks to more fully understand - with reference to the privatisation programme - *where* power is concentrated in society and *how* it is exercised by those who possess it; in other words, which individuals and/or groups hold it, and by doing so, have the ability to influence the formation of public policy.

Democratic Theory and the Distribution of Power

Ideally, the notion of democracy implies that individuals are able to participate in the decisions that affect their lives.[17] From this one could propose that democracy refers to mass participation in the allocations of values in a society. The underlying value of democracy stated by scholars such as Dewey and Mill is individual dignity.[18] Human beings, by virtue of their existence are, democratic theorists assert, entitled to life, liberty and property. John Locke, for example, argued that the very purpose of government was to protect individual liberty. Individuals form a "social contract" with each other, establishing a government that would protect their inalienable rights; they tacitly agree to accept governmental activity in order to better protect life, liberty and property.[19] Central as well to classical democratic theory is the belief in the equality of all people. With time, the extension to this ideal was a notion of equality that included equality of opportunity in all aspects of life.[20]

Traditional democratic theory provokes some interesting questions for contemporary social science scholars. Are the masses permanently barred from exercising power when power is concentrated in the hands of the few? Or is there a diffusion of power with many elite groups exercising it? Can individuals move freely from being one of the masses to one of the decision-makers, or is this access closed to all but a select few? In attempting to explain the nature of power and its concentration within any given community, social scientists have created two divergent and opposing theoretical explanations: pluralism and elitism.

It must be clarified from the onset that central to both the pluralist and elitist models is the assumption that groups - known in this study as "elites" - represent differing interests in society. Each model recognises that mass individual participation in decision-making is not possible in a complex, urban, industrial society. Decision-making must therefore be effected through the interaction of elites, rather than mass individual participation. However, while sharing this base assumption, each model differs dramatically in its perception as to the amount of power that is concentrated within each elite group and the meaningful participation that the masses have with these groups.

The Pluralist Model

Pluralism states that power is widely distributed throughout society. No one group is dominant over the other. Instead, what occurs in the political system is an intricate balance of power amongst overlapping economic, professional, religious, ethnic and other such groups. Each group is said to exercise a certain influence over the decision-making process, but none is seen as possessing a monopoly or decisive share of power, since the different groups all check and counter-balance each other. Thus, no distinct power elite is discernible - no one is independent from the other.[21] Moreover, key political decisions are argued to be made openly in government institutions by duly elected officials. These officials represent, and are accountable to, the general public.[22]

The model identifies a number of reasons for the close relationship between elected officials and the masses. For instance, it states that within each political community there are a multitude of publicly elected officials. Numerous leadership groups are therefore present with each specialising in a particular policy area. Accordingly, the pluralists maintain that the public is not without government institutions to hear complaints and redress grievances. Moreover, there is elite diversity. No one race, creed, sex or economic class is argued to dominate all leadership posts. Finally, political leaders firmly believe in political values. A common commitment to procedure and the respect for individual rights and liberties is shared by the leadership. Thus, the theory asserts, any conflict is dealt with in an open and democratic way.[23]

The model also asserts that the masses play a crucial role in the decision-making process. It is, for instance, not difficult for the average person to join the decision-maker's ranks. If one wishes to seek office, then - according to the pluralists - a wide variety of opportunities are available. Moreover, citizens can affect the political process through membership in interest groups. Through the active participation of these groups in the political process, members are able to have their viewpoints presented.[24]

As a consequence of this close interaction between leaders and followers, the leaders are argued to make decisions based upon the input from various groups and individuals.[25] Furthermore, these decisions will reflect a diverse and large range of interests that exist within the community. Finally, a two way relationship exists between the leaders and followers with regard to policy formation. A change in policy is often initiated by the masses or conversely, in anticipation of demands from the masses.[26]

Two pluralist scholars help illustrate the above assumptions. Dahl offers a good illustration of pluralist theory in his significant and widely acclaimed analysis of political decision-making in New Haven, Connecticut. In it, Dahl focused on those actors who were potentially influential in deciding the outcome of New Haven's political decisions; two hundred and thirty eight of the city's most prosperous citizens, known alternatively as the "economic notables", came under particular scrutiny. Based on his findings in New Haven, Dahl concluded that the role played by this group in making key decisions was not overtly impressive in any of the key issue areas. Thus:

> [There leaves] little room for doubt that the Economic Notables, far from being a ruling group, are simply one of many groups out of which individuals sporadically emerge to influence the policies an acts of city officials. Almost anything one might say about the influence of Economic Notables could be said with equal justice about half a dozen other groups in the New Haven community.[27]

Dahl's study of New Haven also highlights the pluralist assumption that the key political decisions are made predominantly by *elected* officials. Only the Mayor was argued to be in a position to exercise significant direct influence on more than a few areas of public policy. Moreover, direct influence was specialised; a leader in one issue area was not likely to be influential in another. If he was, surmises Dahl, he would probably be an elected public official.[28]

David Reisman offers a second perspective as to why groups in society tend to be in equilibrium - in the sense that none continually dominates governmental decision-making. His explanation for this centres on the observation that all groups are subject to veto by other groups:

> [There has been a change] in which a single hierarchy with a ruling class...has been replaced by a number of "veto groups" among which power is dispersed...In the amorphous power structures created by veto groups it is hard to distinguish rulers from the ruled.[29]

The sovereignty of one group can therefore not exist as others will have the veto power to stop things inimical to their perceived interests.

Pluralism then is the belief that democratic values can be preserved in a system of multiple, competing elites. No one group achieves ascendancy over the others because of the competition that exists between elite groups. Moreover, the masses have an influence in the decisions that the elites make, be it directly through interest group representation or indirectly through the electoral process.

The Elitist Model

The central proposition put forward by the elitists is that all societies are divided into two classes - the few who govern and the many who are governed. This fundamental concept is succinctly expressed by Mosca:

> In all societies ... two classes of people appear - a class that rules and a class that is ruled. The first class, always the less numerous, performs all the political functions, monopolises power, and enjoys the advantages that power brings, whereas the second, the more numerous class, is directed and controlled by the first, in a manner that is now more or less legal...[30]

As already identified, the pluralists would not fundamentally disagree with this elitist view. As a leading pluralist scholar, Dahl states that the "key political, economic, and social decisions...are made by tiny minorities...It is difficult - nay impossible - to see how it could be otherwise in large political systems."[31] The elitist perspective, however, is the antithesis to the pluralists' assertion that elites act in concert and on behalf of the masses.

First, elite theory asserts that the few who govern are not typical of those they govern over. This is because elites control societies' resources such wealth, education, status, skill and so forth. Moreover, the members of the ruling elite are said to be drawn disproportionately from the the wealthy, educated, white and socially prominent groups in society. In short, they are drawn from society's "upper class", who control a disproportionate share of societal institutions.[32]

Second, elites are said to share a consensus about fundamental norms underlying the social system. The model asserts that the elites agree on the basic "rules of the game" as well as the continuation of the social system itself. This consensus allows a continuation to the stability of society. According to David Truman:

> Being more influential, they [the elites] are privileged; and being more privileged, they have, with few exceptions, a special stake in the continuation of the system in which their privileges rest.[33]

Third, elitism implies that public policy does not reflect the demands of the masses. Rather, policy outcomes reflect the interests and values of the ruling elite. Any policy changes that occur in a society, the model argues, will simply be a redefinition by elites of their own values. Not all the elites motives are self serving; the values of elites may be very "public regarding" and the welfare of the masses may be an important element in the decision-making process. However, elite theory does state that the responsibility for the mass welfare rests upon the shoulders of elites, and not upon the masses.[34]

Finally, elitism assumes that the masses are, to a very large extent, passive, apathetic and ill-informed. Moreover, the masses have at best, only an indirect influence over the decision-making behaviour of elites. Mass sentiments are argued to be manipulated by elites far more regularly than elite values are influenced by the sentiments of the masses. Communication between the two groups is said to flow downwards. Policy questions are seldom decided by the masses through elections or through the presentations of policy alternatives by political parties. For the most part, these "democratic" institutions - elections and parties - are only important for their symbolic value. Such institutions help bind the masses to the political system by giving them a role to play on election day and a party with which to identify themselves.[35]

Two elitist perspectives are briefly outlined here to illustrate the model's fundamental assumptions. First, the aristocratic thesis posits that a large number of individuals are simply unqualified to make the decisions required for all society. Thus Lippmann has written that where a Government is dominated by mass opinion, "there is a morbid derangement of the true functions of power. The derangement brings about the enfeeblement, verging on paralysis, of the capacity to govern."[36]

C. Wright Mills offers a different perspective, stating that power is not held by any individual per se, but rather in the position they hold within the institution he or she belongs to. Thus, people of crucial influence can, according to Mills, be identified by a simple standard: the controlling position they acquire and retain in the heirarchies of society's great institutions.[37] Such an approach has been labelled the *positional method* for studying community power. Mills identifies three levels of power that exist in society. The top, and most important level consists of the power elite who are composed of "the warlords, the corporation [and] the political directorate."[38] The second level is where policy decisions for most everyday affairs are in fact made. This "middle and lower level" of power consists of bodies such as the State Legislature and Bureaucracy, however:

> ...these levels [only] provide the noisy content of most "political" news and gossip; the images of these levels are more or less in accord with the folklore of how democracy works... The middle level of politics is not a forum in which there are debated the big decisions of national and international life.[39]

The third and lowest level of power consisting of "the masses" or "the public." Undoubtedly, asserts Mills, this group does actively engage in a variety of political activities. In substance however, it contributes in little, if any, meaningful way to the decision-making process. In concluding, Mills offers these condemning thoughts:

> Such are the images of democracy which are still used as working justifications of power...We must now recognise this description as more a fairy tale than of useful approximation. The issues that now shape man's fate are neither raised nor decided by any public at large. The idea of a society that is at bottom composed of publics is not a matter of fact; it is the proclamation of an ideal, and as well the assertion of a legitimation masquerading as fact.[40]

The elitist perspective therefore offers quite a different explanation than that given by the pluralists, asserting that the decision-making process is influenced by only a few select groups in society.

It can be seen from the above discussion that the distribution of power among groups in society can be interpreted in two distinctly different ways. This study adopts the elitist assumption in its analysis. It argues the Labour Government did *not* seek the input of a large number of groups prior to implementing the privatisation programme. The corollary of this, therefore, is that only a few groups had any input in the decision-making process. Accordingly, and under the umbrella of this broad assumption, the analysis in this study focuses on a small number of groups with the aim of ascertaining how much power each had during the formation phase of the privatisation programme. The rest of this chapter discusses the three models that will be operationalised in order to facilitate such an analysis.

The Economic Elite Model

The economic elite model shares all of the fundamental assumptions held by the elitist model. The model, however, develops it by asserting that some groups are more powerful than others; specifically, political power is concentrated in the hands of the top *economic elite* . Indeed, the political system is argued to be run by and for the people and institutions that dominate the economy. Other groups and individuals are secondary in relation to the economic elite in affecting and benefiting from public policy.[41]

The model states that members of the economic elite are people who command the operations of the major businesses in an economy. Since most economies possess few very large big businesses, the economic elite comprises of a small minority of the society. By this fact alone, the members of this elite will be atypical of the general population.[42] Second, members of the elite see eye to eye on pecuniary matters. There is little internal dissension in the economic elite as the fundamental goal of the economic world is to maximise profits. If conflict between members does arise, they will usually be conducted out of the public eye and will be of a short duration.[43] Finally, the economic elite is united through a wide variety of bonds. Companies for example are drawn together through interlocking directorates and shared stock ownership. Moreover, there are strong social ties that bind the business community.[44]

Influence by the economic elite, the model asserts, is brought to bear on the Government in a number of direct ways. In the initial selection of electoral candidates, for instance, care is taken to select candidates who are not at odds with the priorities of the economic leadership. Elites also influence appointments to governmental posts as appointees are often members of the economic elite. It follows therefore that economic leaders become political leaders with official positions that frequently benefit their own as well as their fellow members interests.[45] Extensive lobbying undertaken by big business is said to be another channel of influence. Through a variety of platforms such as; the media, speeches, submissions and personal associations, attempts are made by the elite to influence policy outcomes favourable to their goals. Finally, the structure of government institutions benefits corporate interests. Government decision-making is primarily a decentralised process with the major work on policy proposals occurring in specialised administrative agencies and in the committee process. Consequently, the model asserts, efforts by the economic elite to influence the decision-making process do not require that all personnel in the Government be contacted.[46]

Such a close relationship is argued by the model to yield a number of results. Most significantly, government decisions are said to benefit and further the priorities of the economic sector. Other groups in society may benefit, but only if their interests coincide with the goals of the economic elite - or if the elite have no interest in that particular policy. Moreover, any change in public policy must have the support of the economic elite; the ordinary citizen or group must convince the economic elite that it is in the elites interest to change the status quo.[47]

Two discussions that help to illustrate the economic elite theory are briefly outlined here. Both concur fundamentally with the model's assertion that the economic elite hold the dominant position in the political system. Parenti, for instance, argues that this dominance is largely due to the lack of accountability that corporations have with the Government:

> For all its activities on behalf of business, government has remained remarkably laissez-faire when holding industry accountable for the social costs of its enterprises. The concept of "limited government," so often violated in the area of civil and personal liberties, holds firmest when applied to business.[48]

The economic elite's primacy and its relative unaccountability to government, Parenti argues, relates to the need to maintain a healthy economy. To win the confidence of the business community, help maintain a healthy investment climate and sound economy are all goals that political leaders see as commensurate with the national prosperity and the public interest.[49]

Charles Lindblom develops this point further. In any private enterprise system, he suggests, a large category of major decisions are turned over to businesspeople, both small and large. Accordingly, businesspeople:

> ...thus become a kind of public official and exercise what, on a broad view of their role, are public functions. The significant logical consequence of this for polyarchy is that a broad area of public decision-making is removed from polyarchal control.[50]

Lindblom's explanation for this "unmatched" position of power mirrors Parenti's. Public functions in the market system rest in the hands of businesspeople; it follows therefore that jobs, prices, production, growth, the standard of living, and security all rest in their hands. Thus, Government officials cannot be indifferent to business performance because a failure in the market system such as depression, inflation or other economic distress can easily bring a Government down.[51] Businesspeople are therefore not seen by Government officials simply as the representatives of a special interest. Rather, they "appear as functionaries performing functions that government officials regard as indispensable."[52]

With the business sector having such an imperative role in the market economy, the Government must, notes Lindblom, induce rather than command. Benefits must be given to businesspeople in order to stimulate the required performance. This, he argues, translates to the privileged, indeed - primary - position of business.[53]

Perhaps, questions Lindblom, other groups enjoy a similar privilege for similar reasons? In short, the answer he concludes with is a resounding "no." Workers, for instance, are in a different position because they do not take the same risks as the businesspeople. Moreover, labour organisations (such as unions) do not hold the same power because unions cannot stop production on such a large scale, or for such a period of time to hold any real "power" over the market system and therefore, the Government.[54]

Lindblom also argues that such a close relationship cannot exist without business executives being admitted into circles of explicit negotiation, bargaining, and reciprocal persuasion, from which ordinary citizens are excluded. Such arrangements are discussed in the context of the issuing of "actual grants of government authority to businessmen."(sic)[55] In these situations, asserts Lindblom, the line between granting a rule of obedience and yielding to the advice is often a thin one.[56]

Lindblom's discussion of the economic elite, whilst concurring with much of the economic elite model, does however differ in one significant way. He argues that the economic elite does not need to exert, as the economic elite model asserts, *direct* influence on the decision-making process in order for it to receive policies that are favourable to its interests. Government, he notes, does exercise broad authority over business activities. However, this authority is limited by the fear that too harsh a control over the business sector will have adverse effects on the economy and, in turn, the Government. Consequently, what exists is an extreme degree of "mutual adjustment" between government and business. It is often distant and impersonal and operates through an unspoken deference of administrations, courts and legislatures.[57] Moreover, this also means that corporate interests can become an important consideration in policy-making without any direct intervention by business; decision-makers will not want to implement policies that will significantly damage business interests, as doing so could have detrimental effects on the economy and therefore Government credibility.

Lamare illustrates Lindblom's assertion well when describing the relationship between U.S Steel and the city of Gary, Indiana. U.S Steel was Gary's largest employer and taxpayer. It also was the source of the heavily polluted air that had, over the years, become an increasing problem for the city.[58] However, the Government in Gary was reluctant to impose any emission control laws for fear of overburdening its corporate benefactor. As Lamare notes, "[f]or years the city failed even to consider the enactment of pollution legislation, even though its air became increasingly foul."[59] Eventually, it did pass some emission control laws although it made sure that they did not harm U.S Steel's interests. Thus, "throughout this policy process, the company never directly became engaged in decision-making: U.S Steel therefore influenced the content of the pollution ordinance without taking any action on it."[60]

Placing this difference aside, however, Lindblom's thesis supports the economic elite model, showing that the great degree of business control is "unmatched by similar control exercised by any other group of citizens."[61] Businesspeople do not get everything they want, he argues, but they do get a great deal. When they do not get enough, recession or stagnation ensues.[62]

The Bureaucratic Model

The bureaucratic model can be included under the umbrella of the elitist model because the bureaucracy is regarded as being one of the few groups exerting considerable influence in the decision-making process. Central to the understanding of the bureaucratic model is the concept of political power. The argument here is that political power is continually concentrated in the hands of less bureaucrats. This, it is argued, results in the breakdown of the representational process and consequently creates what Etzioni-Halevy terms a "dilemma for democracy." [63] More significant to this study, it is argued that such power enables the bureaucracy to manipulate and control the decision-making process.

What is a bureaucracy? Varying definitions have been given. For the purposes of this discussion, the ideas of Max Weber will be used.[64] It will also be noted that "bureaucracy" here refers to the public service as opposed to a private bureaucratic organisation.

Authority is the first definitional concept of a bureaucracy. Authority, noted Weber, exists whenever obedience is based on a belief in the command's legitimacy. Thus, legitimacy turns power and domination into authority.[65] Weber distinguished three types of authority. It is the third - the *legal-rational authority* - that forms the basis of bureaucracy. This is so, he argued, as power is legitimated "by being in accordance with formally correct rules and by the right of those in authority - under such rules - to issue commands."[66] Second, and closely associated with authority, exists a *status system*. This refers to the allocation of different amounts of authority, rights or privileges to the various positions in the hierarchy.[67] *Size* is the third important definitional characteristic of a bureaucracy. It can include the organisation's scale of operations, volume of work, numbers of clients or simply the geographical scope of its activities.[68] Fourth, bureaucratic activities are regulated by general, consistent and abstract *rules*. These rules act to describe (potentially all) the rights and duties of each official.[69] A fifth characteristic is *specialisation*. Each office has a well defined sphere of competence with clearly defined duties resulting in it becoming "a world in itself."[70] Sixth, a *hierarchy* exists within the bureaucratic structure where ranking positions descend from top to bottom. Hierarchy gives formal control to those at the top of the formal communication system. Since information is obviously a prerequisite for participation, this control enables the elite within an organisation the ability to manipulate both the issues and determine what kind of issues will be raised for organisational consideration.[71] Seventh, the bureaucracy frequently has a *non bureaucratic head* who inherits, appropriates or is elected to that position.[72] Officials employed in a bureaucracy hold office by appointment and hold a contractual relationship between themselves and the organisation, are set for a career being protected from arbitrary dismissal, and are selected on the basis of objective qualifications which are acquired by training, established by examinations, diplomas or both. The eighth and final major definitional characteristic of a bureaucracy is the process of *co-option* in which those in power designate their successors. Since such successors are chosen by existing elites, it can be assumed, Weber argues, that they will personify traditional values.[73]

It should be immediately noted that in reality, organisations may exhibit a variety of these elements to greater or lesser degrees. Such a list of elements is consequently referred to as an ideal type. Empirically therefore, it makes more sense to describe *degrees of bureaucratisation* rather than attempting to impose a black or white dichotomy.[74]

In what ways can the bureaucracy be termed "elitist"? Etzioni-Halevy attempts to answer this through the discussion of the "democratic dilemma" that exists with regard to the contemporary bureaucracy; asserting that a paradoxical and self-contradictory connection exists between bureaucracy and democracy. On one hand, the growing power of bureaucracy does indeed pose a threat to democracy.[75] For example, the bureaucracy has at its disposal more sophisticated information gathering devices and therefore can retrieve increasingly more information. Moreover, it is intent on guarding this information and preserving the utmost secrecy in its own domain. Bureaucracy also poses a threat to democracy as it has increasingly gained the potential to exempt itself from the control of elected officials and to infringe on their domain. The implication of this, argues Etzioni-Halevy, is that it can exempt itself from the democratic process itself.[76]

On the other hand, a modern democracy cannot function without a relatively powerful and independent bureaucracy. For democratic procedures to work properly, the modern State must have an organisation at its disposal that will allocate the resources in a non- partisan way.[77] If any organisation composed or controlled by elected officials and their parties did the same job, the allocation of resources could easily favour citizens closely associated to that particular party: "Thus, only a full-fledged, politically independent bureaucracy can safeguard full-fledged democratic procedures."[78]

The technocratic school of thought develops Etzioni-Halevy's assertion. By viewing the control bureaucracy has over the "inputs" or formulation of public policy, it refutes the position of classical public administration which perceives politics as the practice of policy formation while administration is purely that of policy execution. According to the classical view, the bureaucrat is passive and does not enter the policy formation process. Instead, the technocrats argue that such a view is "normative...extremely romantic and idealised...the modern political system is essentially "bureaucratic" - characterised by "the rule of officials."[79]

Almond and Powell concur with this view arguing that bureaucracies have grown to the extent that they tend to monopolise the "outputs" of a system as well.[80] This is because only bureaucracies enforce laws, policies or decisions. Moreover, the extent to which a general policy is implemented will usually depend on the bureaucracy's interpretation, and upon the spirit and effectiveness with which they enforce it.

In what ways can bureaucratic power be used to influence the decision-making process? For the purposes of this study, six are identified. First, the *sheer pervasiveness* of the public sector is cited as one of the main sources of bureaucratic power. Bureaucracies, particularly since the end of the Second World War, have increasingly become more prolific and have penetrated much wider spheres of social life. Weber offers another perspective to this by stating that the need for, and the growth of the bureaucracy, is a result of its rationality and technical superiority, thus making it the most appropriate tool for dealing with the tasks and problems of complex, modern society.[81]

Second, bureaucracies are staffed with officials who are *experts in their field.* Politicians, on the other hand, are usually devoid of the specialist knowledge required to formulate policy and can therefore become increasingly dependant on the experts in the bureaucracy. Consequently, the "trained permanent official is more likely to get his [or her] way in the long run than his nominal superior, the Cabinet Minister, who is not a specialist."[82] Such power is enhanced given that there is a regular turnover of the elected politician compared to the relative permanence of office enjoyed by the civil servant. The implication here is that politicians are inherently disadvantaged on both past experience and future perspectives.

Third, and linked closely with expertise, is the ability of bureaucratic officials to *control information by selective obstruction and agenda-setting.* A wide variety of methods can be adopted by the bureaucracy to control, select and obstruct the information it provides to the politician. For instance, it can be seen in the timing of meetings. Another is seen in the power that inter-departmental official committees have. A good insight into the power held by these committees is offered by Lord Balogh who stated that:

> Most decisions of any importance involve more than one ministry. First they go to one inter-departmental committee at Assistant Secretary/ Under Secretary level. Then they go to an official committee of Permanent Secretaries chaired by the head of the Treasury or the Cabinet Office. Usually some compromise is reached there before it comes to ministers. [83]

Indeed, actual agenda-setting by the bureaucratic official has been cited as one of the most direct ways in which the bureaucracy controls the policy process. The following comment, made by Lord Armstrong, former head the British civil service, offers a good illustration:

> Obviously I had a great deal of influence. The biggest and most pervasive influence is in setting the framework within which the questions of policy are raised...We set the questions which we asked ministers to decide arising out of [the] framework [that the ministry believed in] and it would have been enormously difficult for my minister to change the framework so to that extent we had great power... I think we chose the framework because we thought it the best one going.[84]

In the light of such illustrations, it is not difficult to appreciate the substantial power of the bureaucracy over the Minister and therefore in the formation of public policy. For a politician to effectively fight such activity, he or she would, it is argued, require "the intellect of a Newton and the thrust of an Alexander the Great combined with a Napoleon." However, "[s]uch people are seldom met."[85]

A fourth source of bureaucratic power lies in the *ambiguities and contradictions built into its role.* For instance, the bureaucracy must identify what the future needs are, and yet must also serve different governments which may have totally opposing conceptions of what such needs might be. Such a dilemma is recognised in the Coombs Royal Commission of Enquiry (1977) on the Australian Government Administration:

> The Commission observes that, for purely practical reasons, the administration inevitably plays a role in determining the character of the processes of government and that there is a lack of definition and clarity about the nature and extent of that role. Such lack of precision can be a significant source of misunderstanding and cross purposes (p.19)

> The issue arose in the Commission's work most frequently in relation to the claim that officials should be "neutral" on political issues. On the one hand, such neutrality was seen as basic to the capacity of the administration to serve equally well governments of different political persuasion. On the other hand...a claim to be neutral frequently was either false or reflected merely a singular lack of self-awareness. (p.24)[86]

The ambiguity in role definition is frustrated further by the lack of political accountability towards the bureaucracy. Accountability, argues Jackson, is a relationship intended "to enhance the responsiveness of administration agents to those whom they are expected to serve and to provide a means by which complaints and grievances may be raised and redressed."[87] With specific regard to a parliamentary system, a fundamental aspect of this concept is the notion of "ministerial accountability." This form of accountability therefore judges the performance of those in political office and applies sanctions where necessary, including the demand for the removal of a Minister from office.[88] However, ministers, nor Parliament accept a blanket responsibility for the acts of their officials. Accordingly, the argument that "because somebody whom the Minister has never heard of has made a mistake, means that the Minister should resign, is out of date and rightly so." [89]

If ministers increasingly refuse to "carry the can" for what goes on in their department, then it is not surprising that bureaucrats "have retreated steadily into the mists of non-accountability."[90] Jackson's analysis of bureaucratic accountability cites a variety of reasons as to why ministerial accountability is simply not possible, or at least, is made particularly difficult. For instance, many public sector policies and projects are spread over a lifetime. Different governments would therefore be involved, consequently making it inappropriate to hold any single Minister accountable and responsible for actions or policies that his or her predecessors initiated. Moreover, the complexity of modern government also limits the notion of ministerial responsibility. As the bureaucratic model has illustrated, the vastness and complexity of the modern bureaucracy means that it would be difficult to hold an individual accountable for the whole. This is particularly the case when the individual is only a part of the whole and does not necessarily understand the whole. Finally, with the aformentioned fragmented and interdependent nature of the bureaucratic system, there is a tendency to "pass the buck" whenever anything goes wrong. To locate points of control (and therefore responsibility) is consequently difficult.[91]

A fifth reason cited for the power of the bureaucracy relates to the *social background* of bureaucratic officials. Empirical analysis has varied, however, a broad consensus has been established that - in the words of Krislov: "broad social groups have spokesmen and office holders in administrative as well as political positions."[92] For instance, using the United Kingdom as a case study, Hill's analysis of the British Civil Service showed three biases that seemed to exist in the recruitment of administrative trainees into the civil service. First, a preference existed for Oxford and Cambridge graduates. Second, there was a preference for former pupils of fee-paying independent schools. The third bias saw favouring graduates from the arts and humanities as opposed to physical and social science applicants. No doubt such findings could be debated, however they illustrate the similarity of background of many of the recruits to the bureaucracy.[93]

A second area of social conformity has been identified in relation to the bureaucratic official. Helco and Wildavsky identify a *secondary socialisation* process that takes place within the bureaucratic organisation. Bonds (similar to kinship) exist amongst officials, despite changes in the membership of the group.[94]

Finally, it will be recalled from the discussion relating to the pluralist model, that the *fragmentation of bureaucracy* has been cited as one of the reasons that a pluralistic political system can operate. However, it has been argued that this fragmentation can actually create bureaucratic autonomy and therefore bureaucratic power.[95] This, notes Etzioni-Halevy, holds especially so when fragmentation and interest-group alliances go hand in hand:

> Fragmentation permits sub-system politics - a triumvite of a bureau, committee and interest group - in specialised areas that, in normal political times, can act without interference from other political actors...Bureaucracy, therefore, has opportunities to exercise political power because...government is fragmented.[96]

Thus it can be seen that the bureaucracy has at its disposal a significant and powerful inventory with which to influence the decision-making process in both a direct and indirect way. Such a conclusion can be seen to parallel and reinforce the central elitist assumption; rather than a mass participation in the decision-making process of public policy, it is instead formed by a select few.

The Bounded Rationality Model

The bureaucratic model states that a source of bureaucratic power comes from its ability to control and manipulate the information given to the decision-makers in government. The bounded rationality model, while not implicitly elitist per se, does provide another perspective to support this assertion.

What is rationality? The classical definitions of rationality have been drawn from economic theory and its concept of the "rational man." In principle, it notes that in any situation where a decision must be made, there will always be a variety of choices available, each resulting in a different outcome. Choices reflecting the decision-makers preferences are therefore prioritised and will produce a recommendation that is preferred by the decision-maker because it will result in a desired outcome.[97] The basic axioms of the rationality model, therefore, are that all behaviour is goal-directed. Furthermore, when individuals choose between a number of alternatives, they will chose the one that best serves their own self interests.[98]

While models differ to some degree, all do agree that individuals maximise something - be it profits, budget size, economic growth, social prosperity and so forth. Rationality, moreover, is usually characterised by a patent behavioural nexus between ends and means: the aim is for the best decision to be made, therefore it follows that the means used will justify the ends.[99]

Two broad forms of rationality, bounded and unbounded - each offering quite different approaches - can be used by an actor in the formulation of decisions. *Unbounded* rationality is based upon a number of assumptions around which much controversy exists. Models of unbounded rationality assume that decision-makers, in formulating decisions, know *all* their alternative choices and the consequences that follow from each alternative. Policy makers must, for instance, know all of society's value preferences and their relative weights, calculate the ratio of achieved societal values for each policy alternative and from this select the most efficient policy alternative. Thus, individuals are deemed to be omniscient. In models of unbounded rationality there are no surprises, nor are individuals, in retrospect, therefore disappointed by their choices. Such a model is clearly unrealistic and behaviourally naive.[100]

Bounded rationality arises out of necessity because the information processing and computational powers of decision-makers are limited.[101] This is based firstly on the assertion that the real world is a highly complex and uncertain place, and secondly; that individuals are limited in their ability to deal with and to comprehend the ambiguities and complexities of their environment. As Herbert Simon observes:

> It is impossible for the behaviour of a single, isolated individual to reach *any high degree of rationality*. The number of alternatives he must explore is so great, the information he would need to evaluate them so vast that even an approximation to objective rationality is hard to conceive.[102]

This statement recognises limits of unbounded rationality when decision-makers seek to maximise some valued outcome. In contrast to this type of maximising behaviour, Simon includes as part of the bounded rationality model the concept of *satisficing*. Satisficing behaviour refers to situations where the decision-maker seeks a solution that is simply "good enough": that is, where the combination of satisfactory and suffice produce a "satisficing" choice. The decision-maker therefore will not have to consider *all* the alternatives or consequences in his or her decision. Rather, the decision-maker needs only to consider the "most evident alternatives that will produce a reasonable increase in benefits (ie: satisficing behaviour)."[103]

The manner in which the bureaucracy influences the politician (and therefore the decision-making process) can be seen to contain aspects of the bounded rationality model. This is because the bureaucracy can give advice that does not take into consideration all viewpoints and possible consequences. Bounded rationality also implies that the impact of policy in certain sectors may be considered - however because there is a prioritising of variables and outcomes, adverse affects to these sectors may be deemed "acceptable." From this, it follows that the saticfising process in the bounded rationality model will allow the bureaucracy to select - and delete - information that does (or does not) fit its viewpoint or underlying motives. Such a situation, it is argued here, will directly affect the scope and quality of information received by the politicians from which policy decisions must be made, as only a partial - or "satisficed" - view of the problem will be presented.

It will also be recalled that central to the bureaucratic model is the concept of political motivation such as self-interest and the preservation of power. The bounded rationality model does not encompass such "subjective" criteria. As already noted, the actions of particular actors are based on and presented in purely rational terms. Accordingly it is argued here that in adopting such a "rational" approach, the bureaucracy can hide any ulterior motives. In other words, by presenting advice structured in a "rational" fashion, access and therefore influence to the decision-makers is enhanced, furthering their own self interests.

Conclusion

The distribution of power amongst groups in society has been shown in this chapter to be viewed in two distinctly different ways. On one hand, the pluralists argue that a wide variety of groups are involved in the decision-making process. On the other, the elitist school of thought posits that only a select few groups - an elite - have any significant influence in the formation of public policy. The masses are therefore argued here to possess insufficient *power* with which to influence the decision-making process.

This study adopts the elitist assumption in its own analysis. In doing so, and with the aid of the bureaucratic, bounded rationality and economic elite models, it will attempt to analyse the nature and degree of power that a select few groups had in the privatisation programme's decision-making process.

Endnotes:

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Chapter Two

The Privatisation Programme: Background Events and the Establishment of the Elitist Assumption

"In the Southern hemisphere the water goes round the other way as it goes out the plughole" - a high government official explaining a "socialist" government's "free-market" policies to a puzzled foreigner, 1984.[1]

Introduction

Before focusing on the power that particular interest groups may have had in the formation of the privatisation programme, it is necessary to discuss some background to the programme itself. With this in mind, this chapter is divided into two parts. The first briefly reviews the events leading up to, and the rationale behind, the Government's decision to privatise the State owned enterprises (SOEs) in December 1987. In part two, the discussion examines, with broad reference to the elitist model, three observations that support the elitist assumption adopted in this study.

From Intervention to "Moremarket"- A Brief Sketch

Since the election of the fourth Labour Government in July 1984, New Zealand has undergone unprecedented economic and social change. As Boston and Holland correctly observe, the coming to power of the Labour Government marked a crucial turning-point in the content, character and style of post-war era politics.[2] This Government not only questioned existing policies and attitudes, but also implemented radically new approaches and solutions that, in turn, have affected all aspects of New

Zealand society. In doing so, the aim has been to create a more open, competitive, market-led economy which will generate faster economic growth, higher employment levels and a social welfare system that is ultimately more secure and equitable.[3]

Central to Labour's economic strategy was the fundamental questioning of the Government's role in the economy. Prior to 1984, the State was assumed to have an active and major role to play in the country's economic affairs; it was responsible for correcting market failure, providing goods and services, regulating economic activity such as production and pricing, redistributing income and providing social welfare for the needy. The role of the market as an allocative mechanism in this context therefore, was limited with the adoption instead - by both National and Labour - of "a highly interventionalist mode of economic management."[4]

Such an interventionalist approach is best illustrated during the National Administration, under the leadership of Sir Robert Muldoon which sought to manage the economy through a Keynesian framework.[5] For example, by 1983, it had funded $6.88 billion in development projects (known as the "Think-Big" strategy) which aimed to stimulate economic growth.[6] The primary sector was also the focus of considerable Government intervention. For instance, in an attempt to maintain the standard of living in the farming sector, government assistance to pastoral farming totalled $4.3 billion during the period 1979 - 1983.[7] By 1981, the consequences of such economic intervention became increasingly evident; New Zealand's overseas debt increased dramatically, the annual rate of inflation spiralled upwards and interest rates soared. To combat these trends, government intervention increased with the implementation of a variety of comprehensive and mandatory controls on the business sector. This intervention culminated in July 1982 with the introduction of a lengthy wage and price freeze; the level of wages, prices and rent was suspended for twenty months resulting by December 1983 in an (artificial) inflation rate of 3.6 percent.[8] As Boston and Holland remark, the cumulative effect of the National Government's interventionalist stance between 1975-1984 was "the growth of a pernicious form of institutional sclerosis, a complex web of administrative controls, a relatively low-growth economy...and a massive increase in the nation's foreign debt."[9]

By 1984 it was clear that some significant policy changes would need to be implemented in order to reverse the downwardly spiralling New Zealand economy. As James graphically states:

> By 14 June 1984, when a snap election was called, pressure for big change in New Zealand was banked up. Big change was seeping through the cracks in the conservative Muldoonist dam. All that was needed for that seepage to turn into a flood was a catalyst. The election of a Labour Government...was that catalyst.[10]

The fourth Labour Government, upon being elected, sought to re-write much of the old politco-economic order. This was facilitated by the adoption of a new ideological framework that shifted away from the eclectic combination of corporatist, paternalistic and socialist tendencies, toward a form of market or economic liberalism.[11] This new creed, loosely referred to as "market liberalism", was in many respects, the antithesis of the highly interventionalist Keynesianist doctrine.

Central to market liberalist theory is the call for *less* State intervention in the running of the economy, due to the belief that little of what the government does, actually works. Following Adam Smith's concept of "the invisible hand", the belief is that the pursuit of self interest will, in turn, produce a result that is beneficial to all in society. Thus, the underlying assumption of this theory is that left to itself, the market-place will work to a position of general equilibrium, producing the maximum possible benefit for all in society.[12] Accordingly, advocates of this school of thought generally advocate a form of "more-market" or economic liberalism as opposed to substantial Government intervention.

On the basis of such assumptions, the Labour Government implemented policies reflecting this "more-market" ideology, rather than the *ad hoc* interventionalist approach that was typical of the post-war Keynesian consensus in New Zealand. Consequently, the management of the economy has been significantly transformed. The change that was particularly dramatic, and the area of focus in this study, is in the structure, organisation and management of the State sector. The reforms here have been, without doubt, the most significant since the creation of a permanent, unified and politically neutral public service in 1912.[13] They must also rank, notes Boston, as one of the most comprehensive reorganisation of the public sector initiated anywhere in the West during the post-war period.[14]

That the State sector was targeted for reform could not have come as a surprise. This sector consumed resources that, by 1984, amounted to about 25 percent of the Gross Domestic Product (GDP).[15] Similarly, the SOEs , which were to become the focus for much of the change, were also a significant element within the public sector, accounting for example in 1984, for more than 12 percent of GDP, and some 20 percent of gross domestic investment.[16] Prior to restructuring, there were three main types of public enterprise; government departments with advisory, regulatory and trading functions (e.g. The Post Office, the Forest Service), government owned limited liability companies (e.g. Air New Zealand, Bank of New Zealand) and finally, public corporations established under separate Acts of Parliament (e.g. the Housing Corporation, Railways Corporation).[17] With the State possessing such a large number of diverse activities, the way in which they are managed has significant social and economic ramifications. It is precisely the way that they had been organised and managed prior to 1984 that was of concern to the incoming Labour Government.

Policy makers in New Zealand had, for many years been concerned about the inefficient use of public sector resources. As the Treasury noted in its post-1984 election briefing papers to the new Government, inefficiencies existed in the government departments, primarily because:

(a) Most departments had no clearly defined goals.
(b) Most departments had no clearly specified management plan.
(c) There were few effective control mechanisms to review the performance of departments in meeting their output requirements.
(d) Departmental managers had little freedom to change the way their departments operated to meet their goals.
(e) Too much emphasis was placed on the control of inputs.
(f) There was no effective review mechanism for dealing with senior managements' poor performance within departments.

Source: The Treasury, Economic Management. 1984, p.290.

Moreover, many of the same criticisms were leveled against the SOEs as their performance in the post war period had been consistently dismal.[18]

The Government was therefore determined to improve the overall efficiency of the public sector. Three major theoretical underpinnings were seen to facilitate such an objective. The first was the Public Choice theory which asserts that all human behaviour is dominated by self-interest and is therefore "self maximising."[19] Thus, just as businesses seek to maximise profits, so politicians seek to maximise their votes, and bureaucrats their agency or departmental budget. In the light of this theory, public choice theorists reject concepts such as "public interest" or "social justice" - arguing instead that individuals will pursue their own self interests, inflicting substantial damage on the political marketplace in the process.[20] Given such an analysis, the policy implications of the public choice school are limited. The role of the State, for example, should be minimalised, politicians should be prevented from running budget deficits or imposing taxes beyond a certain level, and where feasible, services provided by government agencies should be contracted or privatised to the private sector. In addition, as the model assumes that departments have vested interests in their own survival, ideally they should not advise government nor implement policy. Public choice theorists therefore argue that advisory, regulatory and delivery functions should be separated and managed by different agencies.[21]

The second model to influence the decision-makers in government, the Agency theory, also assumes that individuals are motivated primarily by self interest.[22] With equal importance however, it assumes that social and political life is best understood as a series of *contracts* in which one party, the principal, enters into exchanges with another, the agent. In the political realm, the voter is seen as the principal entering a contract with politicians (their agents) who undertake a range of tasks and activities on their behalf. Agency theory is primarily concerned with "finding the most effective way of negotiating, writing and monitoring contracts so as to minimise the likelihood of violations."[23]

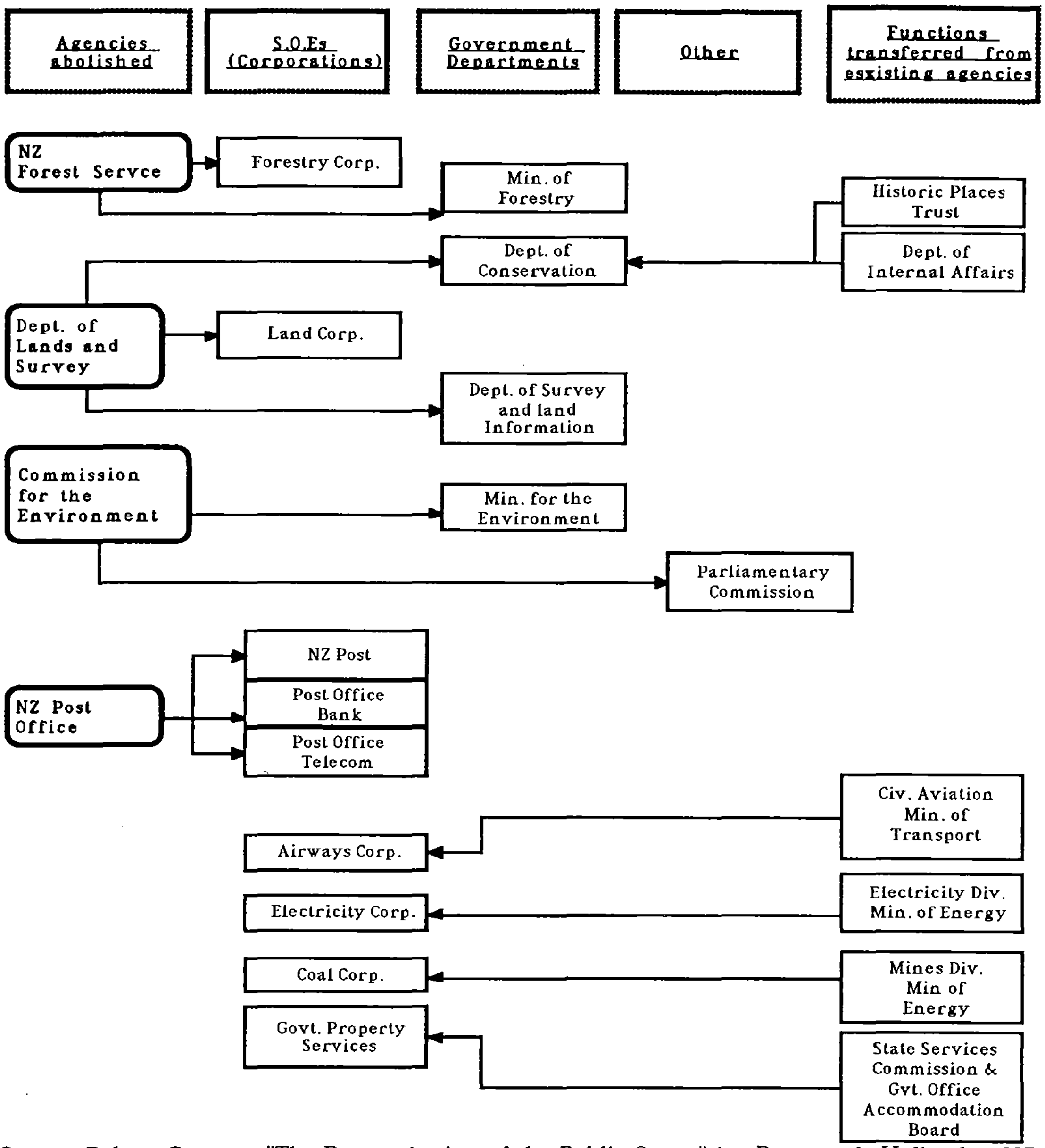
The final important theoretical influence has been the Managerialist model. It argues that public sector inefficiencies are due, to a large part, to a lack of management training, coupled with insufficient emphasis on management skills. The solution is for the public sector to adopt the best management practices and techniques of the private sector with the aim of changing it into a business orientated culture.[24]

Guided by these theoretical underpinnings, the Labour Government's sweeping changes in the State sector were aimed at improving the accountability of the public service to the political executive and Parliament, and/or at increasing the efficiency with which resources are used (both in operational and allocative terms).[25] The broad policy thrust that spearheaded the change in the State sector is known as *commercialisation* . Commercialisation, notes Easton, "involves using private enterprise as the model on which to organise economic relations."[26] Essentially, it is about maximising the use of private property rights in the economy and society. Indeed, in many ways it is argued to be a political programme, altering the balance between the State and private sectors.[27] It is under the broad umbrella of the Government's commercialisation policy that two major policy initiatives - corporatisation and privatisation - were implemented.

The Corporatisation Programme

Corporatisation was seen as a significant initial move towards transforming the State sector into a more accountable and efficient operation. Corporatisation involved, wherever possible, the separation of a government department's commercial from non-commercial activities and transferring the trading activities to public corporations.[28] The enabling legislation - The State Owned Enterprises Act - became effective on 1 April 1987. Under the Act, and as Figure 2.1 (below) illustrates, nine SOEs were established as limited liability companies: the Government Property Services, Airways Corporation, Telecom Corporation, the Coal Corporation, the Electricity Corporation, Land Corporation, New Zealand Forestry Corporation, Post Office Bank and New Zealand Post. Five existing Corporations - Railways Corporation, Air New Zealand, Shipping Corporation, the Petroleum Corporation and the Tourist Hotel Corporation - were also brought under coverage of the Act. Resulting from these moves, four government agencies were abolished: the Commission for the Environment, the Forest Service, the Department of Lands and Survey, and the New Zealand Post Office. Finally, four new government departments were created: the Ministry of Forestry, the Department of Conservation, the Department of Survey and Land Information, and the Ministry of the Environment.[29]

Figure 2.1
The Corporatisation programme's structural reorganisation of the State sector (effective as of 1 April 1987)



Source: Robert Gregory, "The Reorganisation of the Public Sector" in Boston., & Holland., 1987, p.115.

A variety of measures were incorporated in the Act to ensure improved efficiency and accountability. With regard to improved efficiency, for instance, the principle objective of every SOE is to operate as a "successful business enterprise."[30] They are now required to be as profitable and efficient as comparable private sector businesses. Incentives and sanctions appropriate to trading organisations have replaced public service controls, and restrictions imposed by government fiscal constraints are lessened. The new corporations now also have to pay taxes, borrow in the marketplace, and price their goods and services competitively. If some services intended to meet social criteria are unprofitable, they are negotiated - on a contractual basis - between the Government and the corporations. The aim of such reforms is, in theory, hoped to make taxpayer's subsidies "transparent", allowing the managers of the new corporations to remain free to concentrate on meeting their commercial objectives.[31] The Act also contains a "good employer" clause, in which the new organisation must exhibit a sense of "social responsibility" by having regard to the interests of the community in which it operates.[32] With regard to accountability, each of the new corporations now has two shareholders: the Minister of Finance and the Minister of State Owned Enterprises, who are responsible for monitoring performance and a Government appointed Board of Directors. More significantly, part three of the Act specifically outlines mechanisms for improving the accountability of SOEs to Parliament; each enterprise must prepare a comprehensive statement of corporate intent covering such matters as the objectives of the corporation, the nature and scope of its operations, the performance targets and other measures by which the performance of the enterprise may be judged. Half yearly reports are also required for the shareholding Ministers with an annual report submitted to Parliament. In addition, an auditor's report is to be submitted on each corporation's financial statements annually.[33]

While the corporatisation programme radically changed the structure and nature of the State sector, setting up structures that would facilitate improved efficiency and accountability, the Government decided to go a stage further and privatise certain SOEs.

The Privatisation Programme

The term "privatisation" is used to cover a multitude of policy initiatives. These include State disengagement from public activities and responsibilities; privatising funding through user charges while retaining ownership; market deregulation and the contracting out of services to private firms.[34] The term's narrowest meaning, and the activity with which privatisation has become most closely associated, refers to government selling its SOE shares to the general public and private sector. Table 2.2 (below) shows that as at 15 June 1990, the Government had sold eighteen SOEs, receiving $9.5 billion in receipts.[35]

Table 2.2
The Privatisation of the SOEs (to 15 June 1990)

Business	Sale price($m)	Settlement date	Purchaser
N.Z Steel	327.2	22.3.88	Equiticorp brought 90% of the Crowns interest. (1)
Petrocorp	801.6	31.3.88	Fletcher Challenge
Health Computer Service	4.2	7.11.88	Paxus Information
DFC	111.3	18.11.88	National Provident (80%)Saloman Bros (20%)
Post Bank	665.4	28.2.89	ANZ
- Completion	13.1	31.10.89	
Shipping Corp	18.5	3.4.89	ACT (NZ)
- Completion	15.6	19.3.90	
Air New Zealand	660.0	17.4.89	see note (2)
Landcorp Financial Instruments	15.7	7.3.89	Mortgagees
Landcorp Financial Instruments	32.3	5.10.89	
Rural Bank	550.0	31.10.89	Fletcher Challenge
Government Print	20.0	1989/90	Rank Group (3)
Government Print (Deposit)	2.3	2.90	see note (4)
National Film Unit	1.5	23.3.90	TVNZ (5)
Communicate NZ	.200	8.12.89	DAC Group
State Insurance			see note (6)
Telecom NZ Ltd	4.25 billion	15.6.90	see note (7)

(see over for notes)

Notes:
(1) After Equiticorp collapsed. NZ Steel was sold for $323 million to Helenus Corp, an Australian based consortium of companies.
(2) The initial ownership after sale was: BIL (65%), Qantas (19.9%), Japan Air Lines Ltd (7.5%), American Air Lines (7.5%). 30% of BIL's holding is now held by the public and staff of Air New Zealand.
(3) From sale of sundry assets, including its main building in Wellington.
(4) From the sale of the business - balance of $21 million to be paid on possession.
(5) Balance of $1 million due September 1990.
(6) Sale announced, April 1990 for $735 million. The sale will not be completed until legislation is passed.
(7) The new structure is; N.Z public / Overseas investors (40.1 %), Ameritech (24.95 %), Bell Atlantic (24.95 %), Freightways Holdings (5.0 %), Fay, Richwhite Holdings (5.0%).

Source: The Treasury, Wellington.

Reasons for Privatisation

The Government gave two main justifications for privatising the SOEs. These justifications, known in this study as "the debt and efficiency arguments", will be comprehensively discussed in chapter three, however both are briefly outlined here. The first centred on the level of New Zealand's total indebtedness (both foreign and domestic) which by 1987 had reached $42 billion.[36] According to the Government, New Zealand could not sustain such a high level of debt. It therefore argued that State assets would need to be sold in order to significantly reduce the country's foreign debt levels. Such an option was also seen as preferable to alternative methods of reducing the country's indebtedness - such as increasing taxes or reducing expenditure on social services.[37] The second major justification centred on the increased productive efficiency that would be gained, it argued, if the SOEs were fully owned by the private sector. It will be recalled that the corporatisation programme had been initiated with the aim of increasing State sector efficiency. However it was felt by the Government that the real gains in efficiency would only be achieved if some SOEs were wholly owned by the private sector.

Privatisation - The Process

With the background of the privatisation programme briefly reviewed, it is now possible to focus on the nature of its formation. Specifically, the rest of this chapter discusses three observations that support the elitist assumption upon which this study is based. The first observation highlights the relatively short "lead in" period that the privatisation programme had, by comparing it with that of the corporatisation programme; the second, examines the speed in which enabling legislation was passed; the final observation focuses on the Government's refusal to listen to public opinion which was highly critical of its plans to privatise the SOEs at the time.

The Privatisation Programme's "Lead In" Time

The elite model, it will be recalled, asserts that the masses have only an indirect influence over the decision-making behaviour of elites. One significant explanation for this, it argues, is because *communication between the two groups flows downward, resulting in the masses being largely ill-informed.* Thus, the masses have no real power to influence the decision-making process because they possess inadequate information to do so. The privatisation programme's "lead in time" concurs with such an assertion. By "lead in time", this study refers to publicly known policy-related events that occurred prior to the Government's implementation of the privatisation programme. To offer some comparative context to this analysis, privatisation's "lead in" time is compared to the programme that immediately preceded it - corporatisation. In doing so, this study does not imply that the corporatisation programme's "lead in time" exemplifies a pluralistic decision-making process in operation. Indeed, it too has been criticised for being both rushed and elitist. However, in a comparison of the two, it will be shown that it was substantially longer; more people knew - for a greater length of time - about the Government's plans to corporatise. Thus, the masses are argued here to have had comparatively more opportunity to contribute and debate the legislation relating to the corporatisation of the SOEs before it was enacted, than was the case with privatisation.

Turning first to the corporatisation programme's "lead-in time." Hints by the Labour Government that major changes would occur in the State sector can be traced back to the early 1980s. For instance, in June 1980, the then leader of the Opposition, David Lange, stated that a Labour Government would provide "the most radical shake out of the whole system since the demise of provincial government."[38] Random cut-backs he argued, would not lead to a stronger and more effective public service; instead these goals would be achieved by "substantially strengthening the financial accountability of government departments and of the government through Parliament." [39]

By late 1985 it was obvious that the Government was committed to a radical restructuring of the SOEs. In the December Economic Statement, the Minister of Finance, Roger Douglas, outlined the set of principals aimed at enhancing accountability and efficiency that would be applied throughout the public sector. In doing so he noted:

> The essence of the problem is that the public sector needs to be adapted to meet the management needs of a modern economy. The present environment can be frustrating not only for those who have to deal with public sector organisations but also for those who work in them.[40]

This was followed in May 1986 by a major statement on expenditure reform. In it, Douglas stressed that the poor performance of the SOEs resulted from their unclear roles, conflicting objectives, burdensome controls, lack of commercial freedom and inadequate incentive structures.[41] It was time, he announced, to therefore apply the set of principles outlined in the December 1985 Economic Statement. The aim in doing so, would be to turn certain trading activities out of departmental organisations and into corporate structures by 1 April 1987.[42]

It can be seen that the Government communicated its intent to corporatise the SOEs prior to any legislation being introduced into the House of Representatives. Indeed, when the enabling legislation - The State Owned Enterprises Act - was introduced on 30 September 1986, there continued to be an open discussion with regard to the intended changes in the State sector. For example, after its first reading on 30 September, the Bill was referred to a Select Committee where a wide variety of interested parties were able to make submissions. Palmer noted that the Select Committee received "a large number of submissions" resulting in substantial amendments to the initial draft of the SOE Act. These changes included the removal from the first schedule plans to float shares of the Bank of New Zealand and the Development Finance Corporation. In addition, five clauses and one sub-clause were changed, based on recommendations received in the Sub-Committee proceedings.[43] On the 11 December, the Bill was reported back from the Select Committee, at which time the Government immediately took urgency to pass it through its remaining stages. In doing so, however, it reassured the opposition that while urgency had been taken, the new legislation still "provide[d] a battery of instruments of accountability" to Parliament and the Select Committee.[44]

Two further examples of initiatives implemented by the Government reinforce the assertion that the "lead in" time to the corporatisation programme involved greater levels of open communication and was comparatively more "pluralistic" in nature than the privatisation programme. For example, an advisory group was created in October 1986 with a budget of $4.5 million to investigate how public servants would be affected by the changes to the State sector. Part of this group's role was also to advise the Government on the broader community impact that the corporatisation policy would have and "co-ordinate assistance" to communities affected by the restructuring.[45] Additionally, department officials were briefed nationwide by a State Services Commissioner, Mr Don Hunn, on the impending changes that would occur in the public sector.[46]

By the time The State Owned Enterprises Act took effect on 1 April 1987, transforming nine government departments into corporations, the public had officially known about the Government's intentions to corporatise for sixteen months. In that time, a constant dialogue between the Government and interested parties had taken place, with official channels of communication made available and resources set aside by the Government to monitor the reaction to, and effects created by the restructuring on the State sector. As a result of this, a wide variety of interested groups could contribute, and ultimately help shape, the final form that the corporatisation policy would take.

Conversely, the privatisation programme's "lead in" time is argued here to have been comparatively more elitist in nature; it was not as long, nor as open as for the corporatisation policy. Central to this assertion, and unlike corporatisation where the Government clearly communicated its intent, is that the lead in to the privatisation programme saw it repeatedly *denying* that it intended privatising any SOEs. A chronological survey of these denials is illustrative.

As early as 1980 when the National Government considered making part of the Forest Service a limited liability company, the then Labour Opposition lambasted such a proposal - stating that it was "totally opposed" to the idea as the company could then be "flogged off" to the private sector and consequently out of Parliament's control.[47] Later in 1983, Opposition Leader David Lange continued to assure New Zealand that a Labour Government would not privatise any of the SOEs. In the case of Telecom, for instance, he stated: "It is Labour's traditional and emphatic view that control of telecommunication facilities should be retained by the State."[48] Or to the possible privatisation of Postbank: "The Government has no intention of deregulating the Post Office in such a way that Private Enterprise can come and cream off the profitable operations." [49]

By the 1984 election the New Zealand Labour Party continued such a line of argument by stating on two occasions in its *Policy Document* that "Labour has no plans to sell any of the publicly- owned concerns."[50] Indeed, upon the election of the Labour Government, the Prime Minister Lange heralded that "the election of a Labour Government has ended the move towards privatisation of state ventures to private enterprise by the National Government."[51]

Throughout its first term in office (1984-1987) the Government steadfastly maintained its anti-privatisation stance. For instance, in the Economic Statement of 12 December 1985 the Minister of Finance, in outlining his plans to restructure the public sector, stated that the key to efficient management of operations within the public sector "is not the red herring of privatisation."[52] Moreover, the Minister for State Owned Enterprises, Mr Richard Prebble, is quoted in September 1986 arguing that "only an idiot, and in that context I would put the Opposition, would advocate selling Air New Zealand; At the moment to do so would be to sell a very valuable taxpayer asset at a fraction of what it's really worth."[53] Indeed, in case there was any doubt on where he stood, he told Parliament on 30 September 1986 during the introduction of the State Owned Enterprises Bill:

> The Government opposes the suggestion by Opposition members that [it] will sell off taxpayers' assets. The Government does not regard itself the owner...of the State Corporations affected [by the Bill]. The Government is the guardian on behalf of the people.[54]

In the same debate the Government assured the Opposition that it intended keeping a firm hand in controlling the corporations as the new Bill would ensure private shareholders were limited to a minority ownership and would have no voting rights.

The Government also distanced itself from the suggestion that it would privatise by actively condemning the National Party's support for such a programme. For instance, when in March 1987, the National Opposition stated it would pursue a "moderate" programme of privatisation, selling the Bank of New Zealand, the Tourist Hotel Corporation and the Development Finance Corporation, Deputy Prime Minister Geoffrey Palmer responded: "The Opposition [has] made many loose statements about "privatisation" and they will come back to haunt it in the months ahead."[55]

When the Labour Government did begin to soften its anti-privatisation position, it did so in such a way that the public was *still* unsure whether any privatisation programme would be initiated. For example, the first - albeit vague - indication from the Government that it might contemplate some form of privatisation came in the 1986 Budget. The Minister of Finance stressed that New Zealand would need to look seriously at how to reduce the "millstone of debt" incurred from the "Think Big" projects. A variety of options to reduce the level of national debt had been examined during which the sale of State owned assets was briefly mentioned: "These [options] include mothballing the plants, selling them, or simply stopping altogether any further injection of public money."[56] However, at the time Douglas down-played the sales option by stating in the same address that "the Government is not bailing out of the industries involved."[57]

More definite moves were taken by the Government towards the end of 1986 when it began to dispose of some State assets. In October 1986, the Government announced that it would sell its 89 percent holding of New Zealand Steel. In March 1987, the Bank of New Zealand had 12.9 percent of expanded capital worth $180 million publicly floated. This was followed in the June Budget of 1987 with the announcement that due to the "crippling" level of national debt, the Government had "no option" but to sell more assets and use the proceeds to pay off debt.[58] Consequently, Crown shares in the Development Finance Corporation (100%), Petrocorp (100%) and Air New Zealand (25%) would be sold. However, while being a significant development, this was not an announcement that a full scale privatisation programme would be initiated. Instead, it was seen - and indeed, portrayed by the Government - as a number of "one-off" sales.[59] A variety of observations support this assertion. First, in the case of New Zealand Steel and Petrocorp - two investments inherited from the former

National Government's "Think Big" strategy - it came as no surprise, and indeed made economic sense for the Government to divest its shareholding. New Zealand Steel had cost the Labour Government $2.5 billion since 1984, while Petrocorp, in the 1986-1987 financial year, had required $1.8 billion in associated tax write-offs.[60] Second, in the case of Air New Zealand and the BNZ, the share floats were only of a limited nature only. Finally, the Government had not yet stated that these sales were the start of a major policy initiative. It will be recalled also that at this time the corporatisation policy was the main focus of attention, with the Government maintaining that it intended continuing ownership of the SOEs and that corporatisation was no "trojan horse" for privatisation.[61]

By mid 1987, due to the number of signals being given by some key Ministers, speculation increased as to the Government's position on privatisation. For instance, in August 1987, Douglas stated that corporatisation was the "half way house" for selling off more, or the rest of the State sector: "We have to get the regulatory environment right first, before [the SOEs] are moved, and some are certainly not in any fit shape to be floated off yet, so we will sell part of the State holding first and some more, or the rest later."[62] The Minister of State Owned Enterprises, Richard Prebble, also indicated that privatisation could be a viable solution to significantly reducing the level of national debt. In November 1987 he stated that "the New Zealand Government must look at asset sales...the logical thing is to retire some assets and retire some debt." [63] Further signals that assets could be privatised were given by Prebble in early December when he remarked that "the dividends from SOEs are not enough to finance the realistic debt repayment programme...within a very short period of time some valuable assets [will be] worth selling."[64]

The Government, had still not, however, officially stated its intent regarding privatisation. Indeed, due to conflicting Government statements, confusion abounded as late as November 1987. For example, in response to a speech Prebble had given in Australia advancing the case for privatisation, Labour MPs immediately sought a commitment at the 19 November caucus meeting that there would be no further privatisation of State assets. More explicitly however, and in response also to Prebble's comments, the Prime Minister, David Lange, stated that he knew of "absolutely no plan to fob off the Corporations mentioned in [his] speech...Given the state of the market, the Government would have to be nuts to sell them."[65]

However, just twenty nine days later - in the Economic Statement of 17 December 1987 - the Government officially acknowledged that it *would* initiate a major privatisation programme as part of a fiscal strategy aimed at reducing $14 billion of national debt by 1992.

Not surprisingly, the Government's December 17 announcement was immediately criticised by the State unions, who felt that the Government had been "totally dishonest" to them regarding privatisation.[66] The General Secretary of the PSA, Colin Clark notes that "considerable dialogue" took place throughout the corporatisation programme, during which time the Government "repeatedly denied" that it was planning a "full-scale" privatisation programme. Thus, the 17 December announcement was perceived by the unions to be an "utter betrayal":

> The Government just bulldozed us aside, and we were the unions who represented the thousands of State employees who were going to be affected by the outcome...We were given no opportunity - formal or informal - to have a say...The unions were only allowed to be part of the process once they had made the decision to privatise.[67]

What can be seen here, therefore, is that the Government gave no clear indication to the public or unions that it would privatise the SOEs prior to 17 December. Instead, it denied or at best, gave conflicting information that, consciously or unconsciously, served to hide its real intent. Thus, the "masses" could hardly have participated or had any influence in the formation of a policy that they were told would not take place. Clark confirms this when he remarked that the unions "knew nothing about the plans to privatise prior to December 17...we really couldn't do anything at all because there was no information available. If we had had more to go on, then more would have been done at the time, that's for certain." [68]

The Enabling Legislation

An analysis of the manner in which the Government passed the required enabling legislation to sell the SOEs adds further weight to the assertion that the formulation of the privatisation programme was elitist in nature. It will be recalled from the discussion in chapter one that elitism views *democratic institutions such as elections and parties to be only important for their "symbolic value."* An analysis of the Crown Forest Assets Bill (1989) is illustrative of this. [69]

The Crown Forest Asset Bill, from the onset, came under attack from a wide variety of sources including, not unexpectedly, the Opposition, environmental protection agencies, civil libertarians and the Parliamentary Commissioner for the Environment.[70] Criticism was particularly centred on the *manner* in which the Government passed it. Legislation that had already been criticised for serving only a narrow set of goals and interests proceeded to be rushed through the house, allowing little time for effective consideration and debate. For instance, the Bill was introduced on the night of the 1989 Budget (July 28) under the urgency provisions provided in the standing orders - the first time in many years that a major policy issue other than a fiscal matter had been introduced in such a way. As it was introduced under urgency, select committee proceedings were by-passed - effectively barring the general public from voicing concern over the intended legislation, which by this stage had already received considerable criticism from interested parties. This was the case even though the original debate was adjourned for nine weeks while the Government introduced a large supplementary order paper in an attempt to improve some oversights that had been noted during the early stages of debate. By the end of the second reading (October 5), the Opposition attempted to have the Bill referred to the Primary Production Committee with the instruction that "it be advertised widely so that the people of New Zealand may have full opportunity to make their views known to Parliament."[71] The motion however was defeated 39 to 30. In that debate, a member of the Opposition stated that "the select committee proceedings - of which the Government made so much in relation to open government, participatory democracy and so on - are being treated to a travesty of that kind."[72]

By the third and final reading (October 17), the Opposition attempted to have the Bill discharged on the grounds that, given its significance, the House was not given enough time to make a considered judgement. It was suggested that in being discharged, the Bill could be sent to a Select Committee so that "the people who own the land and the forests can have their say."[73] In the ensuing debate, Jim Anderton remarked:

> The Government does not even have the confidence to put the matter to public debate and to consideration by the public through the select committee procedure. That makes a travesty of its commitment to open government. The public has a right to have a say on an issue such as this. The Bill has the

> potential for incalculable damage...yet no chance has been given through the select committee procedure for submissions to be heard...It is an indictment on the Government, and, ultimately, an indictment on Parliament and parliamentary procedures.[74]

Opinion Polls

It will be recalled that a central premise of the elitist model views public policy outcomes to *reflect the interests and values of the ruling elite, and not the masses.* Such a view is well illustrated in the formation of the privatisation programme; the Government can be seen to have persistently excluded the public from the consultative phase of the decision-making process when at the same time it was obvious that there was widespread public concern and criticism of the plan to privatise. While it is recognised that there is a degree of public dissent towards most government policies, the significance here is that the Government, while being aware of the sustained level of public discontent towards its privatisation policy, did not provide adequate communication channels for the general public's dissent to be heard. Moreover, given that the policy in question involved the sale of State (and therefore the taxpayers) assets, it is argued that in a supposedly "pluralistic" political system, such public dissent should have been given a far greater opportunity to be heard.

It is a matter of record that New Zealanders' prefer State ownership for some enterprises.[75] A series of polls conducted prior to and after the privatisation program was implemented, reflect that the overwhelming majority of New Zealander's either oppose State asset sales or want tight controls on foreign ownership of State corporations. Table 2.3 (below) illustrates that of the nine public enterprises that have been, or were proposed to be sold, in seven cases (Air New Zealand, Electricorp, Telecom [1987], Post Bank, Bank of New Zealand, Government Print and the DFC) amajority of the public wanted to keep them in public ownership. Only in two cases (Railways, Telecom [1988]) was there a majority who favoured privatisation.

Table 2.3
Questionnaire: "The sale of State Owned Enterprises"

	June 1987*		October 1988**	
	Keep/Unsure	Sell (%)	Keep/Unsure	Sell (%)
Air New Zealand	61	29	75	25
Electricorp	70	29	n/a	n/a
Telecom	57	43	47	53
Post Bank	62	37	70	30
N. Z Railways	45	54	28	71
Bank New Zealand	70	29	n/a	n/a
Government Print	65	35	n/a	n/a
DFC	72	27	n/a	n/a

* An NBR/Insight NZ survey asked seven hundred and fifty New Zealander's whether they would rather keep or sell five State enterprises.

** An MRL Research Group surveyed 1014 people on five State enterprises in October 1988 to find whether they wished to see the sale or retention of the SOEs.
Source: Public Service Association, Wellington, 1990.

The need for a dialogue between the Government and the general public was reinforced when - and as Table 2.4 (below) shows - an overwhelming majority of people stated that if the sale of State assets were to proceed, then there should be restrictions placed on the sales.

Table 2.4
Questionnaire: Support for the sale of State Enterprises*

	No restrictions(%)	Keep 50 % N.Z Ownership(%)	Sell only to NZ'ers (%)	Do not sell (%)	**Tot.no sale /restrictions(%)**
Telecom	3	30	20	47	**97**
Railways	11	39	21	28	**89**
Electricorp	2	28	25	45	**98**
THC	16	39	27	19	**86**

* Figures come from an MRL Research Group opinion survey held on the 31 March 1990. 1709 respondents were interviewed and were asked the question: "What restrictions, if any, do you believe should be placed on the sale of the following State owned enterprises?"

Source: Public Service Association, Wellington , 1990.

Table 2.5 (below) more succinctly illustrates the degree to which the public wanted SOE ownership to be retained in New Zealand hands.

Table 2.5
Questionnaire: Support for New Zealand ownership of the SOEs (December 1988 and September 1989)

How much do you agree or disagree that you would...	Agree Strongly (%) '89	'90	Agree (%) '89	'90	Total Agree (%) '89	'90
Support privatisation if the Govt organisations involved were bought by New Zealand interests.	21	11	53	62	74	73

Source: Public Service Association, Wellington, 1990.

The Government, however, did not meaningfully respond to such opinion. In the case of New Zealand's two biggest SOEs, Telecom and Electricorp (and as table 2.5 shows above), over 45 percent of those asked said that the corporations should not be sold at all, with a further 50 percent stating that if they were sold at least half the shares in the corporations should be retained in New Zealand hands. However, in the sale of Telecom, which took place in June 1990, there were no restrictions (other than just under a 50 percent ownership) to foreign buyers. Indeed, given the structure of the shareholder ownership, greater foreign ownership cannot be ruled out in the future. Moreover, the necessary legislation required to allow the sales process to begin was passed in only forty eight hours, prohibiting any meaningful discussion - in Parliament and by the public - taking place. As Sue Piper stated:

> No wonder the Government passed through the legislation which enabled [them] to sell Telecom so quickly because they obviously know...that the longer the debate is about these questions the more resistance people have to the sale of services like Telecom.[76]

Results such as these question whether the Government had a clear mandate to sell the SOEs. Continues Piper:

> [It has not got]...and in fact never did have a mandate. [In] the 1987 election campaign Labour did not announce the policy of asset sales, to the country. That policy was introduced after the election. So they never have had the mandate in the sense of an electoral mandate at all, and I guess what these polls are showing is that despite their efforts to promote privatisation...they are not convincing you and I and everybody else...that this programme is a good programme.[77]

Conclusion

The discussion in this chapter has provided two key pieces of background information. First, it has described the events leading up to, and the rationale behind the Government's decision to privatise the SOEs. Such a decision, while radical in nature, can be seen to have been consistent with the "more-market" ideology being espoused by the Labour Government.

More significant to this study was the *process* by which the decision to privatise was reached. The three observations discussed in part two clearly show that the general public and State unions were *excluded* from the privatisation programme's decision-making process in a number of ways. Such a finding concurs with the elite model's central proposition; namely, that the masses do not possess the power necessary to influence the formation of public policy. Of course, and as the model asserts, the corollary of this is that only a select few groups do. Accordingly, it argues that *societies are governed by an elite of groups who make all the key political, economic and social decisions.* With this central proposition in mind, the rest of this study turns its attention towards analysing the power of two groups that *are* argued to have had a significant influence in the formation of the privatisation programme; namely, the Treasury and the New Zealand Business Roundtable (NZBRT).

Endnotes:

1 Colin James., The Quiet Revolution: Turbulence and Transition in Contemporary New Zealand , (Wellington: Allen & Unwin/Port Nicholson, 1987), p.133.

2 Jonathan Boston., & Martin Holland.,"The Fourth Labour Government: Transforming the Political Agenda", in J. Boston., and M. Holland., (Eds.) The Fourth Labour Government: Radical Politics in New Zealand , First edition, (Auckland: Oxford University Press, 1987), p.1.

3 Ibid.

4 Ibid., p.3.

5 Broadly speaking, Keynesianism is based on the theory that a depression results from both government and individuals not creating enough investment or consumption in the economy to stimulate and create growth. Keynesianists argue that intervention and spending by the government is therefore necessary in the economy in order to stimulate aggregate demand. This in turn, it is argued, will create increased consumer consumption resulting in investment and consequential growth in the economy. R. Scollay et al., Macro-Economics and the New Zealand Economy , (Auckland: Longman Paul, 1987), pp.23-27.

6 The four main projects which incurred these costs were; the Ammonia-Urea Plant ($1.3 Million), Synfuels Project ($2.30 Billion), Marsden Point Refinery ($2.45 Billion), and the New Zealand Steel [stages One and Two] Project ($2.00 Billion). Roger Douglas., & Louise Callan., Toward Prosperity , (Auckland: David Bateman,1987), pp.153-164.

7 Ibid., p.178.

8 Department of Statistics., Quarterly Review of Key Indicators , March, 1988.

9 Boston., & Holland., p.4.

10 James., pp.165- 166.

11 Boston., & Holland., p.6.

12 D. Begg et al., Economics , Second edition, (London: McGraw-Hill, 1987), pp.174-185.

13 Boston., & Holland., p.7.

14 Jonathan Boston., "Transforming New Zealand's Public Sector: Labour's Quest for Improved Efficiency and Accountability", in Public Administration , No.65, (1987), p.424.

15 Ibid., p.427.

16 Ibid.

17 Ibid.

continued...

18 Three examples illustrate this assertion. First, in the twenty one years to 1986, State coal mines produced a profit in only one year. Second, in the Post Office Savings Bank, non-interest expenditure in the period 1976-1986, had grown (in real terms) 75 percent while total real assets had fallen 37 percent. Moreover, its market share by 1986 had halved in ten years. Finally, The Railways Corporation had continued to post substantial losses (in 1986/7 for instance was $65 million) despite the government investing $140 million dollars annually since 1976 and receiving substantial subsidies in the form of cheap loans, social service payments and exemption from rates. National Business Review , (NBR), 23 May, 1988.

19 Jonathan Boston., "Politicians and Public Servants: New Zealand Developments since 1984", Paper presented to the Seminar organised by the Social Science Research Fund Committee on Constitutional Transformations: Intended and Unintended, Wellington, 12 August, 1988a, p.11.

20 Ibid.

21 Ibid.

22 Ibid.

23 Ibid., p.12.

24 Ibid.

25 Boston., 1987, p. 424.

26 Brian Easton., "The Commercialisation of the New Zealand Economy" in B. Easton., (Ed.) The Making of Rogernomics , (Auckland: Auckland University Press, 1989), p.115.

27 Ibid., pp.115-116.

28 Boston., 1987, p.424.

29 Boston., 1988a, pp. 2-3.

30 New Zealand Government., Economic Statement , (Wellington: Government Printing Office, 1985), p.12. Quoted in R. Gregory., "The Reorganisation of the Public Sector: The Quest for Efficiency", in Boston., & Holland., p.116.

31 Gregory., pp.116-118.

32 Boston., 1988a, p.3.

33 Ibid., pp.3-4.

34 Jonathan Boston., "From Corporatisation to Privatisation: Public Sector Reform in New Zealand", in Canberra Bulletin of Public Administration , No.57, (1988b), p.71.

35 This does not include $735 million dollars for the sale of State Insurance which will be paid when legislation enabling the sale to proceed is passed. It also does not include proceeds for the sale of the THC, totaling $73.85 million dollars. The Treasury , Wellington.

continued...

36 Department of Statistics., New Zealand Official Yearbook 1988-1989 , (Wellington: Government Printing Office, 1988), p.795. This figure represents debt outstanding as at 31 March.

37 New Zealand Government., 1987 Budget Part One: Speech and Annex , (Wellington: Government Printing Office, 1987), p. 11.

38 David Lange., "Labour's View", Public Sector , No.3, (1980) p.8. Quoted in Gregory., p.111.

39 Ibid.

40 New Zealand Government., 1985, pp.11-12.

41 Roger Douglas., Statement on Government Expenditure Reform , (Wellington: Government Printing Office, 1986), p.11.

42 Ibid.

43 New Zealand Parliamentary Debates., Vol. 476, (1986), pp.6118-6119.

44 Ibid., p.6192.

45 The Press., 14 September, 1986.

46 Ibid., 18 July, 1986.

47 New Zealand Herald., 21 August, 1980, p.1.

48 Address by the Leader of the Opposition, Mr D.R. Lange at the 1983 Post Office Union Annual Conference. Quote published by the PSA, Wellington.

49 Address by the Hon. J.L Hunt at the 1985 Post Office Union Annual Conference. Quote published by the PSA, Wellington.

50 New Zealand Labour Party., Policy Document , (Wellington: 1984), pp. 18, 83. Quoted in Boston., 1987, p.428.

51 Quoted in Easton., 1989, p.114.

52 New Zealand Government., 1985, p.12.

53 Quoted in Shane Cave., "The Companies They Don't Keep", The New Zealand Listener , 3 December, 1988, p.26.

54 Ibid.

55 Ibid.

56 New Zealand Government., 1986 Budget: Annex to the Journals, Vol. II, 1986-1987, p.6.

57 Ibid.

58 New Zealand Government., 1987, pp.10-11.

continued...

59 Colin Clark., Wellington, 23 August, 1990.

60 Cave., pp.27-28.

61 Colin Clark., Wellington, 23 August, 1990.

62 The Press., 14 August, 1987.

63 Ibid., 21 November, 1987.

64 Ibid., 15 December, 1987.

65 Ibid., 18 November, 1987.

66 Colin Clark., Wellington, 23 August, 1990.

67 Ibid.

68 Ibid.

69 The Bill is essentially enabling legislation allowing the Crown to sell by way of tender, exotic forests and related forestry assets owned by the New Zealand Forestry Corporation Ltd. It also puts into law the agreement between the Crown and Maori land claims in which there would be the return of Crown forest land to Maori ownership, and compensation when Maori claims succeed before the Waitangi Tribunal. New Zealand Parliamentary debates , Vol. 502, (1989), p.11625.

70 Ibid., Vol. 499, (1989), p.11628.

71 Ibid., Vol. 502, p.13021.

72 Ibid., p.13017.

73 Ibid., p.13253.

74 Ibid., p.13019.

75 Brian Easton., "Is Privatisation Necessary; A Pragmatic View", Paper presented for the Institute of International Research Seminar on "Privatisation in New Zealand", Wellington, 30 November, 1986, p.11.

76 From the transcript of a Radio New Zealand morning report, (2YA), 12 April 1990.

77 Ibid.

Chapter Three

Treasury's Relationship with Douglas: Bureaucratic or Political "Capture"?

Labour...unleashed an economic revolution in late 1984, based not on its own politics but on a blueprint provided by Treasury.[1]

"Douglas was always in control of the overall decision-making process...he called the shots and we provided him with the information he needed."[2]

Introduction

The purpose of this chapter is to examine the nature and degree of influence the Treasury had in the formation of the privatisation policy. To do this, the discussion is divided into two parts. The first applies the bureaucratic and bounded rationality models to Treasury's relationship with the Minister of Finance, Roger Douglas. The aim of using these models will be to establish the amount of "bureaucratic capture" that took place; in other words, the degree to which the Treasury successfully influenced and manipulated Douglas' thinking on privatisation. The second part of this chapter discusses factors that suggest a limitation to the notion of "bureaucratic capture."

Before operationalising the bureaucratic and bounded rationality models, it is necessary to briefly examine two assumptions that are used in the following two chapters. The first assumption relates to why this study focuses only on the Treasury and the New Zealand Business Roundtable (NZBRT) as the two groups that may have influenced Douglas' thinking.

Turning first to the Treasury, it is argued to have had the potential to *directly* influence Douglas' thinking on privatisation. As this chapter will fully discuss, the Department could have done this via its role as the principle advisory body to the Minister of Finance; Treasury officials made no secret of the fact that they supported a privatisation policy and are widely seen to have exerted direct influence by consistently advocating privatisation in their policy advice to Douglas. Moreover, their advice met relatively little competition and therefore monopolised this area of policy advice. The relationship between the information submitted by the Treasury and Douglas' justifications for the need to privatise the SOEs is given by some as evidence that significant "bureaucratic capture" took place. Thus, the Treasury is argued to have usurped political power, formulating a policy of privatisation which was imposed, via the Minister of Finance, onto an "overwhelmed" Cabinet.[3]

The NZBRT - further discussed in chapter four - is the second group that is argued to have played a significant role in the formation of the policy, though through more *indirect* means. This is so because Douglas was predisposed to consider the position of, and the advice from, the business community for a number of reasons. First, he supported the privatisation policy because of the inherent belief that private sector management of the SOEs would be more efficient; privatisation was therefore implemented primarily with the private sector in mind. Second, it is known that Douglas made causal links between private sector confidence and a stable economic environment. The Minister therefore actively pursued policies - such as privatisation - that he felt would facilitate private sector confidence. Furthermore, privatisation was a policy that many in the private sector were calling for; it represented the epitome of the "more-market" environment that would enable companies to enjoy larger profits and sounder strategic positioning within the economy. Thus, in the light of these assertions, the NZBRT is argued to have become more influential in the decision-making process because both it and Douglas shared the same commercial values and fundamentally, the same set of economic goals. [4]

The second assumption made here - primarily to limit the scope of analysis - is that Douglas was the primary actor behind the Labour Government's programme of economic reform. Such an assumption is held to be true by most political commentators. For instance, Easton states:

> While Lange had the title and the symbols of power, it was Douglas who made the running; it was even his name that was used in the popular term for the Government's economic policies, in contrast to Thatchernomics or Reaganomics where the premier's dominance was acknowledged.[5]

use this

Because Douglas is widely regarded as the architect of Labour's reform programme, it seems logical to focus on that individual identified as central to much of the change in the New Zealand economy. Accordingly, this study analyses the Treasury and NZBRT's relationship with the Minister of Finance only.

Operationalising The Bureaucratic Model

This model identifies six ways through which the bureaucrat can exert considerable influence on the decision-making process. Each will be discussed here in turn. In operationalising the model's criteria, two of the six were found not relevant to this study. The first of the two relates to bureaucratic power being derived from the *ambiguous role it plays in society.* Moreover, this ambiguity is argued by the model to be enhanced by the lack of accountability the bureaucracy has with its political masters.

The Treasury's relationship with Douglas was, in the context of this study, quite unambiguous. The Department had a clearly defined role to play, providing the Minister with economic policy advice. Moreover, the concept of "accountability" is also not necessarily relevant to this study. Accountability, as outlined in the model, refers more to the implementation phase of public policy; where the lack of bureaucratic accountability gives it more scope to interpret and implement policy as it sees fit. However in the formation of public policy, which is the focus of this study, the bureaucracy has no real need to be held accountable for the information it provides. This is because it is merely giving policy advice which the Minister can choose to accept or ignore.

Similarly, the second criterion outlined in the model is not particularly relevant to this study. Here, the *fragmentation of the bureaucracy* is argued to provide greater autonomy - and thus greater power - in the decision-making process. The Treasury/Douglas relationship however was not fragmented. Treasury officials had a direct link with Douglas that was never really encroached upon by any other department or organisation. Moreover, the Treasury is a highly specialised and "insular department"; the need then for officials to seek advice from groups outside the Department becomes minimal.[6] Stated a senior Treasury official: "While the preparation of advice will draw on analytical techniques and information which naturally originate from outside the Treasury...Treasury advice does not derive from sources outside the Treasury; [Its] advice derives from the Treasury itself."[7]

The other four criteria outlined in the model are relevant to this study and offer considerable insight into the influence Treasury might have had upon Douglas' thinking.

First, the model asserts that officials tend to be *experts in their field* whilst politicians can lack such a high degree of specialist knowledge. As a result, the model argues, the politicians will tend to rely on the experts in the bureaucracy. This criterion is clearly applicable in Treasury's case. Treasury officials were significantly more conversant than Douglas in matters pertaining to macro-economic policy. They included some of the top graduates in economic studies as well as strong academic performers from other disciplines.[8] Moreover, most of his senior advisers were far more experienced than Douglas in economic affairs because they had been economic advisers for a considerable number of years. Douglas on the other hand, while full of ideas and enthusiasm, did not have the degree of specialisation necessary to address some of the more complex economic issues. The role that the Treasury officials' expertise played is identified by an adviser close to Douglas at the time, who stated that the Minister came into office in 1984 "with a lot of good ideas but he hadn't filled them out. It was really the Treasury that provided the technical know-how for him to develop his ideas into policy."[9]

The concept of bureaucratic expertise is particularly significant with regard to Douglas' presentation of the privatisation programme to his Cabinet colleagues as well as the public. The privatisation policy was clearly a sensitive political issue for the Labour Government, however, because Treasury officials could argue complex economic issues more compellingly, they could depoliticise the political sensitivity about privatisation by presenting it as a technical solution to an economic problem. Douglas could therefore justify privatisation by presenting Treasury's complex economic arguments - which on the surface seemed devoid of any ideological components. Jesson concurs with such an assertion:

> Most of the public discussion...was conducted in the language of economics, which meant that it was argued as a technical matter rather than one of political belief...This meant that Rogernomics was based on an incomprehensible body of economic theory that was almost impossible to debate.[10]

Finally, while having only 120 professional advisory staff, the expertise and intellectual firepower held by these officials in the realm of economic policy also helped to secure the Treasury's dominant position of influence over its bureaucratic rivals.[11]

The high degree of *social conformity within a bureaucracy* is the second source of power identified by the model that can be applied to this study. It is achieved through the recruitment of personnel with similar social and educational backgrounds and reinforced by a secondary socialisation process that takes place within the organisation. Thus, the bureaucracy possess power because it speaks with "one voice" and as such, is easily identified and associated with by likeminded groups and individuals in the decision-making process.

The Treasury clearly displays a high degree of social conformity - recruiting mostly university graduates with generally similar degrees and backgrounds.[12] Moreover, internal procedures within the Treasury - as with most government departments - emphasise conformity and uninamity. For example, by the time a discussion paper goes to the Minister, it has been reviewed, and if necessary re-drafted by the section or department head, resulting in an opinion that will be consistent with prevailing departmental opinion.[13] The uniformity of ideas and policy advice that emanated from the Treasury at the time was, in part, a result of the similar socialisation processes the officials had experienced. This social conformity is also argued to have given the Treasury influence over Douglas and the Cabinet, as both groups shared a number of similar social characteristics: they were from a similar age bracket (30 to 50 years old), had similar family backgrounds (typically middle class and often urban), and had been through similar university education, the economic content of which would have been much the same (1960s neoclassical economics updated to the 1970s). Moreover, these two groups went through similar political experiences; both were in "opposition" to the previous Prime Minister and Minister of Finance, Sir Robert Muldoon.[14]

The third source of bureaucratic power relates to its *pervasiveness in society* . Bureaucratic power is a dominant influence in the decision-making process because it proliferates so many spheres of social life. The model is obviously referring to the bureaucracy as a whole, however, it can be interpreted in a narrower sense to help explain the pervasive role that the Treasury plays in the formation of public policy.

While the Treasury is not the only advisory source for economic and financial matters to the Cabinet, it is undoubtedly the most important. As Polascheck remarked, "Treasury's influence is greater than any other department...its financial decisions and recommendations pervade every aspect of government activity."[15] A number of reasons can be seen for this pervasiveness. For example, the Treasury is the dominant influence on recurrent expenditure; it initiates, co-ordinates and presents to the Government the expenditure plan for each successive year.[16] The Department consequently has a wide range of control functions not only in the sphere of macro-economic policy, but also controlling public revenue and expenditure, overseeing government department's financial operations, and providing financial information on central government activities.[17] Thus, notes Roberts, "there is little that Treasury cannot and will not look into, although its reports rarely deal with purely political considerations."[18]

The emphasis placed on the Finance Portfolio is another reason for the pervasive nature of Treasury influence. The Minister of Finance is now one of the most senior members in the New Zealand Cabinet. In more recent times there has also been the practice of appointing several Deputy Finance Ministers who are of Cabinet rank. In the Labour Government's first term there were effectively three Finance Ministers - Roger Douglas, Richard Prebble and David Caygill - all of whom not only held Cabinet rank, but also sat on the Policy Committee, with at least one sitting on each of the five Sectorial Committees. Thus, there was at least one senior Minister arguing Treasury's case in all the major policy-making forums.[19]

The Treasury's pervasive influence is also enhanced because of the practices that surround the reporting procedures to Cabinet. As the monitor of government expenditure, the Treasury has significant influence over other departmental submissions to Cabinet. In 1987 for instance, 75 percent of all Cabinet submissions were commented on by the Treasury.[20] Moreover, since 1973, Treasury reports have been distributed to all Cabinet Ministers. A wider range of key decision-makers are therefore able to consider and evaluate the Treasury's views, which are not only cogently argued, but are often shorter than the departmental submissions upon which they are commenting. Given the work pressures that most Ministers face, they will tend then to read the Treasury report, giving only brief attention to the original departmental submission.[21]

In the light of this evidence, this study asserts that the Treasury is a most dominant and pervasive influence over the decision-making process. It has a significant reporting role and is highly active with regards to policy matters across a wide spectrum of governmental activity. [22]

The fourth and most significant criterion in the context of this study relates to the bureaucracy being able to directly *select and control the information that is given to the politician.* This is argued to have a significant impact on the decision-making process because in doing so, it is able to influence the questions that are asked, the way problems are defined, the policy options that are considered and ultimately therefore, the policies that are decided upon.

With this in mind, the information Treasury gave Douglas in its capacity as principle economic adviser had the potential to have significantly influenced his thinking on privatisation. The Treasury consistently presented and advocated two main justifications in its policy advice. The first related to the increased efficiency gains that would result from privatising the SOEs; the second was linked to the level of New Zealand's public debt and how it could be significantly reduced through the sale of the SOEs. These two justifications - known as the "debt and efficiency arguments" - will be discussed in turn.

Turning first to the efficiency argument. The Treasury advocated the privatisation of the SOEs primarily because of the belief that private sector ownership and disciplines would significantly improve their operating efficiency. The efficiency argument can first be seen in *Economic Management.* In it, the Treasury lamented the fact that the New Zealand economy faced "serious structural difficulties" displaying "one of the most lack-lustre performances among countries in the developed world."[23] Treasury identified the State sector as being particularly inefficient and therefore in need of significant reform. This was so, because "the efficiency with which these resources are used has a major impact on the growth and general performance of the economy."[24] It was argued that a primary reason for this inefficiency was due to the Government's ownership of the SOEs. Treasury therefore advised the Government that improved efficiency gains in the State sector could be achieved through privatising certain State owned trading enterprises.

After *Economic Management* , and continuing to the December 17 Economic Statement in 1987, the policy advice submitted to Douglas by Treasury clearly shows a continued bias in favour of privatisation. The context for this centred around the corporatisation debate. In it, the Treasury consistently downplayed the ability of State owned enterprises to effectively monitor operating performance and thus provide the necessary incentives to improve efficiency. At the same time, it implied that private sector ownership and disciplines would give more effective monitoring, greater incentives, and ultimately superior efficiency.

For instance, in May 1985, Treasury wrote a paper for Douglas entitled *"The Economic Rationale for Continuing State Ownership of Trading Enterprises."*[25] The paper discussed some of the problems Treasury felt were created by the State ownership of the SOEs. Referring to the SOE model, it stated that the "commercialisation" stage achieved important efficiency gains, however there were "often significant limitations to such a policy, particularly in the absence of private sector disciplines on performance."[26] The paper went on to discuss the relative weakness of monitoring and incentive mechanisms that resulted from State ownership. The report concluded by stating:

> In many cases continued State ownership may not be the most effective way of meeting the Government's aims of improving efficiency...Undertaking a review of the appropriateness of continued State ownership of individual State owned trading activities, could permit significant gains in efficiency and economic growth.[27]

By August 1986, the Treasury was clearly advocating the privatisation of the SOEs to Douglas in its policy advice. For instance, in one report, the Department wrote:

> In Treasury's view there are inherent limitations to the achievement of private sector levels of efficiency...The proposed monitoring and accountability mechanisms for SOEs, while an improvement over the current position, are unlikely to be adequate substitutes for [these] market mechanisms.[28]

The paper went on to suggest that a privatisation programme would go a long way to meeting higher levels of efficiency. Moreover, it is argued that such a programme would be far more effective if a complete rather than partial asset sales programme was initiated because, "partial privatisation is unlikely to achieve all achievable efficiency gains"[29]

In September 1986 a paper titled *"State Owned Enterprises: Umbrella Legislation and Public Participation"* emphasised that public participation would play an important role in encouraging directors and managers to act in the owner's interest. It recommended to the Minister of Finance that he should therefore urge the Deputy Prime Minister to instruct that "the SOE umbrella legislation reflect...appropriate adjustment of accountability provisions to accommodate public participation." [30]

By 1987, Treasury had intensified its criticism of the SOE model, arguing that it did not provide the structures necessary to achieve optimum efficiency levels. For instance, in March 1987 it submitted a report highlighting the limitations to offshore borrowing while an SOE remained in State ownership.[31] In essence, the report argued that as long as the SOEs were majority-owned by the Government, international debt markets would view SOEs as an extension of sovereign risk. As such, it would be very hard for an SOE to go bankrupt. The principle of competitive neutrality- something that corporatisation was trying to achieve - could therefore not exist.[32]

It is clear that Treasury's comments were being accepted by Douglas. On 4 May 1987, he wrote a letter to the Deputy Prime Minister highlighting his concerns that while new SOEs were now more efficient than before, they still did not have transferable shares, and as such, were not subject to normal private sector disciplines:

> No matter how good the directors we appoint are...the fact remains that there will be no more external disciplines to ensure that their objectives are aligned with those of the owners of businesses. I therefore share the concerns of officials that a fully effective financial monitoring function is necessary.[33]

After April 1 1987, the importance that effective monitoring procedures would have on the new SOEs was increasingly being stressed by the Treasury. In doing so, it continued to downplay the effective monitoring of performance that could take place while the SOEs were State owned. For instance, during May and June 1987, Treasury compiled a comprehensive report entitled *"Commercial Performance of the State Owned Enterprises: Principles for Shareholder Monitoring."* [34] The document was prepared to assist Ministers in deciding upon the details of a programme for the commercial monitoring of all SOEs. Treasury proposed a framework for monitoring that reflected procedures adopted in the private sector. Throughout the paper, however, it repeatedly discussed the inherent limitations of monitoring that existed while an SOE was State owned. For instance, in one part it stated that inefficiency in the production of goods and services arose "from the absence of pressures on public enterprise to perform which normally would be present through the transfer of ownership." [35] In another section it argued that: "By definition, the transfer of ownership is a limited option for public enterprises. This reduces significantly the pressures on directors to act in the shareholder's interest." [36]

By the night of the July 1987 Budget, Treasury can therefore be seen to have consistently stressed the limitations that public sector monitoring had on improving the SOEs operating efficiency. The implication was always that only private ownership and disciplines would secure greater and more lasting efficiency gains.

Prior to the 1987 Budget, the Treasury also consistently justified privatisation on the grounds that revenue generated from the sale of assets would help to significantly reduce New Zealand's high level of public debt.

Treasury can also be seen to have first used the debt argument in *Economic Management*. and *Opening the Books*. It stressed that "the overseas debt is too high"[37] and that the Government could not "go on borrowing to maintain the living standard of New Zealanders."[38] Therefore, as a solution the Department suggested the Government sell existing shares in organisations such as Air New Zealand or Petrocorp in order to finance the fiscal deficit in the short term.[39]

The debt argument was not emphasised by the Treasury in its policy advice until December 1986 when it began submitting reports for the 1987 Budget. In one of the first budget reports, Treasury advised Douglas that the Government needed to significantly reduce the level of New Zealand's public debt.[40] A number of arguments were given in support of this. For instance, the accumulation of debt was resulting in levels of debt servicing that placed an "increasing burden on the taxpayer." These costs were growing well in excess of the rate of growth of nominal GDP, and as such were having "negative" effects on the growth of the economy.[41] Treasury also noted that the level of debt would soon begin to have a detrimental effect upon the finance market. Thus, Government action:

> ...to reduce the deficit and particularly the growth of expenditure would help to strengthen confidence about future economic prospects. Improved confidence would not only help to reduce inflationary expectations but would also contribute to a more stable economic environment.[42]

It therefore advised the Government that "the need for fiscal restraint next year will be paramount and indeed that some further policy measures to achieve reductions in the fiscal deficit are likely to be needed."[43]

By March 1987 the Treasury's briefing papers to Douglas had become more assertive: The level of public debt had now reached "chronic" proportions.[44] Moreover, this reflected significant inconsistencies in Government policy that threatened a "major break in confidence" - which in turn would result in adverse pressure being put on the interest and exchange rates. Such an occurrence, it was argued, would undermine the liberalisation measures that had already been implemented.[45]

During March, the Treasury's arguments began to link an asset sales programme to a reduction in the level of debt.[46] It argued that a privatisation programme on one hand would yield greater efficiency gains, while on the other the proceeds from the sales would be used to reduce the level of debt. It therefore recommended to the Minister that he note "Treasury's view that there are substantial efficiency gains possible from asset sales, and proceeds from any such sales should be applied to debt reduction."[47]

Again, Douglas accepted the advice given to him by Treasury, for in a memorandum for Cabinet he stated that New Zealand could no longer afford to "go on running deficits of the current size and accumulating debt at the current rate."[48] He concluded that the Government had to look at ways of reducing the fiscal deficit. To achieve this, he suggested that "some asset sales" should take place during the year "[They] do not remove the pressure on interest rates and exchange rates created by large financial deficits. However they do contain the growth of debt servicing costs." [49]

By April 9, Douglas' proposal for an extensive recasting of government activity had been developed by the Treasury. A scenario considered by the Treasury to be the best "overall budget package" resulted from this and was given to Douglas.[50] The package included the sale of "many government assets" both in commercial and social areas in order to generate funds to eliminate public debt.[51] To illustrate this point, Treasury submitted a table that emphasised the significance an asset sales programme would have in reducing the level of New Zealand's public debt (see Table 3.1).

Table 3.1
Elimination of debt burden with asset sales

Commercial Assets	$ (m)
Rural bank	1,500
NZBC	1,000
BNZ	1,500
Petrocorp (net)	500
Electricity	6,000
Forestry	1,500
Postal	200
Coal	100
Telecom	2,500
POSB	300
Property	1,000
DFC	400
Airways-Airports	500
Lands	200
Tourist Hotels	300
State Insurance	500
Air New Zealand	500
Government Printer	200
Geothermal	500
Railways	200
Ministry of Works	100
Sub-Total	19,500
Non Commercial Assets	
Housing-Rental	3,000
- Loans	3,000
Educational Establishments	10,000
Health	10,000
Sub-Total	26,000
Grand total of Assets	45,500
Debt Burden	
Gross Internal Public	22,000
Gross External Public	22,500
SOE Debt	5,500
Grant total of debt	49,500
SHORTFALL	4,000

Source: The Treasury, Wellington.

Douglas appears to have accepted Treasury advice. By May 1987 he submitted a memorandum to Cabinet with a proposal that the Government embark on an "on-going programme of sales of equity in State-Owned Enterprises" in order to "slow the growth of public debt."[52] As part of the asset sales programme Douglas proposed a combination of selling shares and equity bonds. Consequently, his recommendations to Cabinet were that they:

a) Note: ... a programme of public participation in State Owned Enterprises offers considerable potential for reducing the public debt burden...as well as providing strong incentives to improve SOE performance.

b) Agree [to the]:
i. Sale of 100 percent of the Crowns equity in Petrocorp, DFC and Air New Zealand.
ii. The issue of equity bonds equivalent to 25 percent of the equity of Government Property Services and the New Zealand Forestry Corporation.
iii. Authorisation to issue equity bonds equivalent to up to 25 percent of the equity of the remaining seven new SOEs...

Source: The Treasury. Budget Report No. 60. 13 May 1987. , p.5.

On the night of the July 1987 Budget, Douglas publicly announced for the first time that some asset sales would take place. He clearly had, by this time, accepted both the Treasury's debt and efficiency arguments. However, his public support for them - and indeed a full privatisation programme - was muted. For instance, while acknowledging that the sale of some assets would reduce the level of debt, he announced that most would only have up to 25 percent of their equity sold on a non-voting basis. Moreover, only fleeting reference was given to the efficiency gains that privatisation would bring.[53]

After the Budget, it is clear from their correspondence to Douglas, that Treasury officials were not happy with the Government's announcement that only a "limited" privatisation programme would be initiated. Consequently, advice given between July and December 1987 continuously stressed the merits of *full* privatisation by highlighting the limited gains to efficiency that would result from partial privatisation. For instance, in one paper they wrote:

> The issuing of equity bonds for some SOEs will transfer some responsibility for monitoring to private sector investors...However the Government's retention of ownership...will limit the contribution of monitoring.[54]

While in another paper:

> Because it does not lead to contestable control we believe that the partial privatisation of businesses is likely to provide only comparatively small benefits. This suggests that the Government should look to transfer at least the majority of the equity of any SOE. [55]

Concurrent with Treasury's "full privatisation" thrust were a variety of papers that continued to highlight firstly the negative effects of New Zealand's public debt levels and secondly, the potential to reduce the debt even more if a more comprehensive privatisation policy was implemented.

Again, it can be asserted that Douglas concurred with the advice given by Treasury because by November 1987, he had agreed to a full privatisation programme; using the debt argument as the primary justification. In a Cabinet memorandum he stated:

> The Government will transfer ownership and control of the State Commercial businesses and assets to full private ownership. The objectives are to use the proceeds of the sales to reduce levels of public debt so as to provide the Government with more financial flexibility, and to increase national income through more efficient use of assets.[56]

The Bounded Rationality Model - Treasury's Use of the *Satisficing* Process

The concept of bounded rationality gives further insight to the suggestion that the Treasury influenced Douglas' thinking. The model states that individuals, when faced with a number of choices, will prioritise and choose an option that best serves their own interests. Moreover, once an option has been identified, a *satisficing process* takes place in which only information supporting that option choice will be given. What results from this is a policy that reflects the information given.

Treasury was significantly influenced by, and aligned to the Chicago School of Economics, whose policy outlook is fundamentally anti-statist. As Reder defines, the Chicago school:

> ...is strongly biased towards preserving or establishing (i) a maximum (negative) freedom of choice and action for consumers, producers and entrepreneurs, (ii) a minimum tax-, welfare-, and interventionalist state, and (iii) a stable rule bound institutional framework including the monetary regime.[57]

Treasury's policy advice justifying privatisation on the grounds that it would improve economic performance is derived from the Chicago perspective that it held. Accordingly, officials are argued here to have adopted a *satisficing process*, providing only information that was in line with the Chicago school of thought. The outcome of this satisficing process is illustrated by a number of empirical and factual anomalies pertaining to the Treasury's assertion that private ownership is inherently more efficient than public. For instance, in one paper, Treasury officials stated that "[w]ith the exception of heavily regulated private sector firms, the empirical studies are *almost unanimous* in finding evidence for superior efficiency by private sector firms." [58]

However, a number of prominent individuals and significant studies clearly disagree with the assertion that private sector efficiency is inherently better. Millward, for instance "finds overall, no broad support for private enterprise superiority...there seems to be no general grounds for believing managerial efficiency is less in public firms."[59] Further, the Borcherding et al. survey of studies covering five countries concludes along similar lines, stating that public sector inefficiency has not so much to do with the transferability of ownership, but rather lack of competition. Indeed, the sources of public sector "waste" it argues has more to do with the clash of differing objectives rather than fundamental inefficiency.[60] In another example, Treasury constantly used the agency theory or "principle agent" analysis in its support of privatising the SOEs on the grounds of enhanced efficiency. However, it is well known in the profession that "the theory of agency is not well enough developed to be of much scientific interest."[61] In the light of such evidence, Easton concludes by stating that the theory relating to Treasury's efficiency argument dominated over all the evidence that argued to the contrary.[62]

Similarly, Treasury consistently advocated privatisation on the grounds that it would reduce debt, yet never acknowledged in its argument that there was considerable skepticism of the debt argument. For instance, J.K Galbraith on a visit to New Zealand in 1988 stated that "the sale of government assets has very little impact on the real influence of debt. It is a cosmetic action which reduces deficits without having any real effect on the economy."[63] Dr Roderick Deane also recognised the shortcomings of the debt argument. The real economic gains, he argued, "do not relate to the balance sheet effects accruing from the sale of assets...the public sector has not altered its net worth through the privatisation process."[64]

The Treasury therefore only submitted information to Douglas that supported the Chicago perspective it held. Indeed, when a paradigm conflict arose, Treasury would simply choose to ignore the alternative view. Such a situation has serious implications on the formation of public policy. Easton argues that where there is paradigm conflict, "it is incumbent upon policy advisers to be aware of both paradigms and to seek policy recommendations which involved consistency with each." [65] Read concurs with this opinion:

> In such circumstances it is a requirement of professionalism that...economic advice related to practical decisions should not stray far from the middle ground of...economic science and should, where appropriate, pay due regard to alternative theoretical interpretations of the facts.[66]

The result of this was that Douglas received a "bounded" view of the problem and issues. He consequently never formed an opinion based on other viewpoints.

A Limitation to the notion of "Bureaucratic Capture"

The evidence presented through applying the bureaucratic and bounded rationality models suggests that the Treasury had a number of means through which it could influence or "capture" Douglas' thinking on privatisation; it contained experts in economic policy who were of a socially similar background and education to those in the key decision-making positions; it was a pervasive influence in the realm of economic policy - dominating the nature and content of economic advice that Douglas received; and it provided information to the Minister that was unwavering in its consistency and highly selective in its focus. However, while these means of influence existed, a number of other factors suggest that the notion of "bureaucratic capture" is limited. Douglas is argued to have been influenced by variables that were independent from his relationship with the Treasury. A wide number of factors can be indentified, but for the purposes of this study, four will be briefly discussed. These are; Douglas' own thinking, experiences, principles and personality.

The Consistency in Thinking Between Douglas and the Treasury

Probably the most significant factor supporting a limitation to the notion of bureaucratic capture is that by the time Douglas became Minister of Finance in 1984, his thinking was already consistent to that of the Treasury. Both held a similar "freemarket" orientation in their economic thinking, identifying the same problems that existed in the economy and coming up with similar conclusions as to how these problems should be rectified.[67]

Douglas' quest for greater efficiency and his skepticism regarding State intervention can be seen to have existed as early as 1980. For instance, in his book *There's got to be a better way!* published in July of that year, he openly questioned the role government departments played in the economy:

> But can we really say that everything Government departments do is necessary? Any reshaping of New Zealand's institutions should start by challenging every facet of central Government...Ask- are Government departments necessary?... Be ruthless with the answers. [68]

In the same book, he also advocated government disengagement from commercial activities arguing that "[p]oliticians do not know how to run businesses. Leave that to the businessmen."[69] Moreover, he called for fundamental change: advocating a user-pays policy, greater bureaucratic accountability and more clearly defined objectives. In the case of Railways for instance, he recommended the Government "turn the show into a Corporation" dividing it into small cost centres "so everybody knows what he is contributing and how he can do better."[70]

Another paper written in 1982 and entitled *Does New Zealand have an economic future?* gives further insight into Douglas' desire for radical structural reform. It proposes ways of improving economic performance and the role of government in the State sector. He wrote: "In New Zealand there are plenty of examples [of] petty Government regulations that are...counterproductive...We have to decide what is the proper role of Government and what is the proper role for the private sector."[71]

While Douglas was clearly dissatisfied with the status quo, Oliver notes that prior to the end of 1983 his thinking was still developing; up until that time he still believed that government involvement in the economy was necessary because the market, if left to itself, would develop in ways that were detrimental to the national interest.[72] Policies he supported at the time reflect this. For example, he supported small business protection; regional development schemes; the Government "picking winners" for investment; and import barrier protection. By the end of 1983 however, Douglas' views had shifted considerably to become consistent with a "free market" approach in economic thinking. He now showed skepticism in the State's capacity to "pick winners." State funding was no longer necessary in order to create development in the economy - rather it should now only be given in special cases where "market failure" had been demonstrated to exist.[73] Douglas also no longer saw the need for import barriers either; he argued for a rapid reduction in trade protection, accepting the fact that "aggregate output and employment will fall initially." [74]

Thus, by the end of 1983, Douglas had adopted a "free market" approach to his economic thinking.[75] He now believed that the market, and not the Government should be the primary decision-maker in the economy. These views now held by Douglas had evolved to become consistent with the Treasury. Two examples illustrate this consistency. First, when Douglas became Minister of Finance, his comments supporting radical change were very similar to the Treasury's in *Economic Management* . For instance, while the Treasury was attacking the intervention of the previous Government and suggesting a fundamental reassessment of the way the Government managed the economy, Douglas at the same time was stating that:

> New Zealand is at a crossroads...[We] can no longer afford soft options. Regulation and major interventions in the economy have not provided the answers...Far reaching changes in economic policy are essential...the important thing is to take steps which result in permanent improvements over the medium to long term...[76]

Second, a senior Treasury official stated that while there might have been some differences between the two in the emphasis of some policies, the disagreements were never fundamental. The reason for this, he suggested, was "because great minds think alike. The reason for the consistency in thinking was because we were people grappling with the same problems and coming up with similar conclusions."[77]

Thus, by 1984 Douglas and the Treasury were already of similar minds when confronting the problems that existed in the New Zealand economy, and more importantly, both agreed that significant change would need to be implemented in order to rectify these problems. It is argued here that this consistency in thinking between Douglas and Treasury downplays the notion of "bureaucratic capture" because while Douglas may not have advocated privatisation per se, the policy was consistent with his own thinking and economic objectives. In this context, the Treasury - through the policy advice it gave - had little need to "win" him over to the notion of privatising the SOEs.

Influencing Factors Prior To 1984

The second factor suggesting a limitation to the notion of bureaucratic capture relates to the political and economic events that occurred prior to 1984. It is argued here that these events significantly helped formulate Douglas' freemarket thinking which in turn made him amenable to a policy such as privatisation. Two examples are illustrative.

The first relates to Douglas' reflections on the National Government's "Think Big" programme. He argued that political rather than purely economic criteria were used to evaluate the viability of the programme. Thus, some projects went ahead that should not have, resulting in a number of "financial white elephants."[78] Douglas felt that the solution to this was to eradicate political interference in the formation of economic policy. He was not against government intervention per se, but was against intervention that was motivated or conditioned by electoral pressures.[79] He felt it constrained productive investment and had in fact, led to economic decline. Douglas thus favoured a more "technical" criteria in the formation of economic policy that excluded the possibility of favouring particular interests in society. Moreover, he felt that the best decisions would be those that were made by a small elite, who stood apart from, and immune to, social and electoral pressures.[80] Accordingly, the free market policies being advocated by Treasury were consistent with this type of thinking. As Oliver notes: "The ideology of the market, and of the inevitable incompetence of state economic planning gave him the rationale for finally and completely excluding pernicious social and political influences from the field of economic policy."[81]

The second example is associated with the support Douglas received from the Labour Party and Caucus prior to 1984. If he had not gained this support prior to 1984, his thinking, and therefore the freemarket policies he advocated as minister - such as privatisation - could not have developed to the degree that they did. Three main events prior to 1984 are identified as having facilitated support for Douglas' policy proposals.

Labour's loss of the 1981 election was the first event that turned opinion towards Douglas' call for the new electoral strategy of placing economic policy as the first priority. It was felt that a primary reason for the loss of the election was that too much policy had been produced, resulting in the impression that Labour would promise anything to anybody.[82] As Henderson wrote in November 1982: "The 1981 process should be reversed: economic policy should be agreed upon first and policies in other areas forced to fit within that framework."[83]

Another related argument was that Labour had repeatedly lost elections because its policies were similar to those of the National Party. A new strategy needed to be rendered as distinct from the strategy of its opponents. As Moore put it:

> We will only take centre stage with courageous policy action. We should apologise to no one that there is nothing for Welfare, if we were Government our first budget [would be] to redirect investment and to disinvest ourselves from unprofitable traditional industries. That's our challenge and our most dangerous move, but it will also return to us the most because of its audacity.[84]

Douglas' policies aiming to restructure the New Zealand economy, known later as "Rogernomics", provided the solution to a number of key problems. First, it offered a distinct "alternative" to the policies of the National Party. More importantly, it gave the order of priorities that needed to be addressed. Policies would no longer be given equal status. Doing so in 1981 had led to a number of different policy agendas competing for position in an overall policy, which in turn led to great problems in the dissemination of policy.[85]

By the time Lange had ascended to the leadership early in 1983, an electoral strategy consistent with Douglas' thinking had been accepted. The strategy now provided a "centre" for the policy making process, with economic policy dominating all others. The adoption of such a policy would, it was felt, ensure that the problems of 1981 would not be repeated.[86]

The second event centred on the growing support within the Labour Caucus for Douglas' proposals of economic restructuring. For instance, within the context of the CER debate, a number of Labour MPs such as Palmer and Hercus supported the restructuring that would inevitably be needed to accommodate such an agreement. In February 1981, Hercus again made it clear that she supported restructuring when she told the Woollen Mill Workers Union that "the National Government was not incorrect in making the textile industry the subject of study and a candidate for more rapid structural change."[87]

Caygill also called for restructuring. In a paper to the Caucus Economic Committee Policy Seminar in February 1983, he argued for the closure of industries that were not viable in a less protected trade environment.[88] Moore also called for trade liberalisation policies. Trade protection he argued, had become a stimulus to monopoly control of the closed domestic market which encouraged high domestic prices. Moreover, he claimed that protection defended only a few jobs, whilst slowing employment in other areas.[89]

The decline of the "corporatist tendency" within the Labour Caucus is cited as the third event that benefited Douglas's policy stance prior to 1984. Corporatism depends upon a consensual agreement between employers, union organisations and the Government. Policy would be negotiated and agreed upon before its implementation took place. Economic policy therefore would be based upon a tripartite consensus and would represent, express and encourage "a sense of national unity, a common purpose, and would therefore facilitate harmony between employers, workers, and all sections of society."[90]

A number of influential members in the Labour Caucus advocated the corporatist approach in the implementation of economic policy. However there were those who felt that such an approach to economic management was simply not feasible. The essence of their argument was that the construction of an "accord" in support of restructuring would have been impossible. This was because the Trade Union movement remained suspicious of the idea that opening up the economy to competition had long-term benefits. Any tripartite agreements would be exceptionally fragile, particularly if they were based on voluntary and revocable adherence.[91] Arguments such as these raised serious questions concerning the political practicality of corporatism, resulting in the policy's decline.

The major beneficiary of this decline was Douglas. His type of policy proposal of restructuring the economy offered an alternative to the daunting political problems that corporatism posed. First, it required no corporatist "accord" as the centre-piece of its programme and consequently was seen as being far more efficient. Moreover, the programme could be implemented by an elite of civil servants and Ministers - people distanced from the pressures and influences of organisations representative of social interests such as the Trade Unions.[92] Thus, it was felt that if a programme of restructuring incurred high social costs, as it no doubt would, then it would be far more appropriate the programme was more elitist in nature.

Douglas' Principles

Douglas also possessed a number of principles that were consistent with the implementation of a privatisation programme. First, privatisation represents the type of policy that Douglas had always felt was essential in order to achieve successful structural reform; it was decisive and was based on fundamental considerations that avoided a "short term shortcut."[93] Douglas looked instead to the medium term: "Going for quality means choosing the actions that deliver most benefit to the nation in the medium term, instead of choosing more now, for supposed political gain, at the cost of less later." [94]

Second, Douglas believed that the Government should be consistent in the policies it implemented. Once a policy starts to move, he argued, its momentum should not be stopped until the "total programme" is completed: "Keep the reform process going - drive it to a successful conclusion."[95] Furthermore, Douglas argued the need for consistency because structural reform had its own "internal logic" that inevitably saw one step leading to another.[96]

Douglas' "continuation principle" suggests then that he would have been in favour of a privatisation programme for two reasons. First, and due to his belief in the benefits of private sector monitoring, it would ensure greater efficiency gains. Second, a privatisation programme was felt to be necessary as it would "lock in" the efficiency gains that had been made during the corporatisation process. As Douglas stated: "If the process stops prematurely at corporatisation, many of the gains may ultimately be frittered away as time passes."[97]

Another key principle held by Douglas, and linked closely to consistency, was the need for credibility. The key to credibility was consistency of policy. Therefore in order for the Government to remain credible in its structural reform policies, it needed to be consistent - to develop the corporatisation programme into privatisation in order to increase and secure the levels of efficiency. Indeed, Douglas argues that the Government lost much of its credibility when it failed to fully carry through its privatisation programme. In this context he stated: "Wherever our policies have gone only part of the way towards reforms of uncompromising medium-term quality, the Government is...in trouble."[98] It was only through consistency and therefore credibility of policy, argued Douglas, that the Government could create economic confidence which in turn would generate growth in the economy. Consequently, decisions had to be fundamental in nature, unwavering in their resolve and carried through as far as they could go: "You have to break the pattern of the past dramatically enough to convince [people] that, this time, somebody really does mean business." [99]

Douglas' Personality

Douglas' personality is the final factor discussed here that suggests a limitation to the assertion that Treasury "captured" Douglas and manipulated the process leading up to the decision to privatise the SOEs. Those who worked with Douglas comment on the strength of his leadership, his ability to quickly absorb complex ideas and his decisive method of decision-making. Such qualities are argued to contribute to the suggestion that Douglas was in control, using Treasury to facilitate his own vision. Two examples are used to illustrate this.

The first example relates to Douglas' the "activist" management style. All of the Treasury officials interviewed for this study commented on Douglas' pro-active nature. For instance, he made a point of personally communicating with a large number of Treasury officials. He would not, as the previous Minister of Finance did, simply liaise with the most senior officials. Thus, Douglas maintained a "hands on" approach to his management of the Treasury and its officials. It is argued that this gave him a continuous insight into the occurrences within the Treasury. More importantly, it enabled him to have and maintain control of the process of change.

Douglas' pro-active management style was linked to his own conviction that what he was doing was necessary. As already established, by 1984 he had already done a considerable amount of thinking about ways of improving the economy's performance. Treasury officials note that the Minister "developed his own ideas...he had a clear vision of what he wanted to do." He is argued to have therefore "driven Treasury and set their overall agenda for them...That is probably why he has been so successful."[100]

The second example of Douglas' control over the Treasury can be seen on the occasions that he disagreed with the advice he received from its officials. A good illustration of this was on the occasion Douglas announced for the first time that a partial privatisation programme would take place. While he signalled complete State disinvestment in New Zealand Steel and the selling of shares in Air New Zealand, Petrocorp and the DFC, the bulk of the privatisation initiative at this time consisted of an equity bond sale for all other SOEs. However, Treasury did not support issuing equity bonds; the reason being that equity bonds, while basically equivalent to ordinary shares, are different in that they do not offer the shareholder the right to vote on decisions affecting that company. Effectively therefore while they may "own" shares in the company, the shareholders have no control over them.[101]

Memorandums from Treasury clearly indicate that they advised Douglas *against* the "equity bond option." The grounds for this objection lay in the limited efficiency gains that they felt equity bonds offered. This was:

> ...because equity bonds are issued with no voting rights...Shareholders have little opportunity to influence the direction of the business. The Government continues to be left with the primary responsibility for monitoring the business and seeking to improve its performance.[102]

Such an argument was consistent with Treasury's fundamental belief that only a full transfer of ownership would provide the most enhanced efficiency gains possible. The above illustration also reinforces the assertion that Douglas was in control of the policy making process leading up to the December 17 Statement. One could posit that Douglas, in not following Treasury recommendations, knew the political sensitivity that surrounded a privatisation programme. If he had, as Treasury recommended, pushed for *complete* State disinvestment from the SOEs in the July Budget, the policy could easily have faced opposition to the extent that it would have had to be shelved. However, by proposing an initial "limited" privatisation programme via the equity bond option; a move that only advocated a maximum of 25 percent non-State ownership and ensured that control remained firmly in the hands of the State, his more cautious colleagues would not have reason to over-react. In other words, the July 1987 Budget announcement by Douglas was made for the purpose of acting as a "political icebreaker" to the opposition that clearly existed towards privatisation at the time.

When he did finally advocate a full "on-going" privatisation programme in December 1987, the more limited July Budget announcement had broken the ice by exposing the Cabinet and public to the idea of a privatisation programme as well as positing general justifications for it.

Conclusion

To what degree did the Treasury influence Douglas' thinking on privatisation? If viewed through the bureaucratic and bounded rationality models the influence was significant, suggesting that "bureaucratic capture" occurred. The Treasury officials were experts in their field; had similar social backgrounds and education resulting in a high degree of empathy; they monopolised most of the economic advice Douglas received and had the ability to directly control and select the information it gave him. Moreover, the consistency by which Treasury advice advocated the debt and efficiency arguments must also surely have contributed to the influence it had over Douglas' thinking. The evidence to support the notion of "bureaucratic capture" is argued to be seen in the final outcome;

the Government used the very same arguments Treasury advocated in *Economic Management* and in the lead up until the December 17 1987 statement.

However, while these factors are evident, it is argued here that Douglas was not influenced to the extent that Treasury "captured" his thinking. Advisers can always be ignored. It they are taken notice of, then there has to be some disposition towards their views. As previously discussed, by 1984 a number of factors had already propelled Douglas to adopt a similar freemarket way of thinking to that of the Treasury. While this does not mean he advocated a privatisation policy at the time, it is argued here that such a policy would have been consistent with his overall thinking and objectives. Moreover, it is argued that Douglas held a number of principles that demonstrated an affinity with the notion of privatising the SOEs. Finally, the notion of bureaucratic capture must be downplayed in light of his strong personality; his vision of change was too developed and his activist management style too dominant for the Treasury to meaningfully "capture" his thinking or the overall process at which the change was occurring.

Thus, while the Treasury's policy advice must have influenced Douglas to some degree, it was more in the sense that it provided him with the technical detail to translate his broad vision into substantive policy. In this light then, the Treasury facilitated the Minister's wishes rather than "captured" his thinking.

Endnotes:

1 Bruce Jesson., Behind the Mirror Glass: The Growth of Wealth and Power in New Zealand in the 1980s , (Auckland: Penguin, 1987), p.124.

2 John Chetwin., Wellington, 9 August, 1990.

3 Jesson., p.123.

4 Ibid., p. 11.

5 Brian Easton., "The Unmaking of Roger Douglas?" in B. Easton., (Ed.) The Making of Rogernomics , (Auckland: Auckland University Press, 1989a), p.172. The following quote is another good example illustrating the primacy of Douglas' position in the realm of economic affairs. The former Prime Minister, David Lange, was asked in an interview: "Are you saying that [it was] Roger Douglas who, above all, had thought through the economic issues - so when Cabinet needed to fall back on an economic philosophy, it was Douglas who had one?" Lange replied,"Yes that was what happened. Throughout the whole of this Government, Roger has been the economic strategist". The Dominion , 9 November, 1987.

6 Geoff Swier., Wellington, 15 August, 1990.

7 John Chetwin., Wellington, 10 May, 1990.

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21 Ibid.

22 Ibid., p.78.

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32 Ibid., p.3.

33 Roger Douglas., Letter to the Deputy Prime Minister, 4 May, 1987, p.1.

34 The Treasury.,"*Commercial Performance of the State Owned Enterprises: Principles for Shareholder Monitoring* ", Industries Branch, 10 June, 1987.

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37 The Treasury., Opening the Books , (Wellington, Government Printing Office, 1984b), p.6.

38 Ibid.

39 The Treasury., 1984a, p. 294.

40 The Treasury., Budget Report No. 7,"*Fiscal Strategy 1987/88* ", 17 December, 1986.

41 Ibid., p. 2.

42 Ibid., p.3.

continued...

43 Ibid., p.1.

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97 Roger Douglas., "Privatisation: National Policy-makers' experience - New Zealand", Speech delivered to World Bank Seminar, Washington, 12-14 June, 1990, p.35.

98 Roger Douglas., speech to the Mount Pelerin Society, p.36.

99 Ibid., p.22.

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Chapter Four

The New Zealand Business Roundtable's Relationship with Douglas

Business dominates the community much more completely than at any time in our history.[1]

"I find it impossible to assess how influential we have been." (Roger Kerr, Executive Director of the NZBRT). [2]

Introduction

This chapter seeks to assess the nature and degree to which the New Zealand Business Roundtable (NZBRT) influenced Douglas' thinking in the formation of the privatisation programme. To do so, the economic elite model is applied to the relationship between Douglas and the NZBRT prior to December 17 1987. This model proposes that political power is concentrated in the hands of a top economic elite. In other words, the political system is run by and for the people and institutions that dominate the economy. Moreover, it asserts that in order to maintain and control their political power, the elite uses *direct* means to influence the decision-making process.[3] The central question that this chapter seeks to answer is; can such an assertion be found to exist in the NZBRT's relationship with Douglas, and if not, is some alternative explanation required?

Operationalising the Economic Elite Model

Defining the Economic Elite

Before the model can be operationalised, it is necessary to identify which group in New Zealand is the most representative of the "economic elite." A number of *class wide* policy-making organisations exist in New Zealand and have become more prominent during the 1980s.[4] These include: the Top tier Group, the New Zealand Chambers of Commerce, the Institute of Directors and the New Zealand Business Roundtable (NZBRT). This type of organisation is neither concerned with "sectorial interests", nor involved in the everyday operation of the industrial relations system. Rather, and as Roper explains, it "is composed of policy-making business associations whose explicit *raison d'etre* is the political representation of the common interests of the "business community" as a whole." [5]

While all of these groups represent the New Zealand business community, in order to limit the scope of analysis, this study assumes that the NZBRT is the most *representative* of the community's "economic elite." The application of three definitional characteristics found in the economic elite model substantiates this assumption.

The model's first definitive characteristic of the economic elite is described as a *small group of individuals who command the operations of the major businesses in the economy*. The NZBRT clearly represents such a group. While currently only having 38 members, all are of Chief Executive status who control some of the largest companies in New Zealand.[6] Therefore, and as the following three observations illustrate, this small group holds considerable economic power.

First, the NZBRT consists of representatives from almost every sector in the New Zealand economy. Most member firms are listed companies. However, and as table 4.1 (below) illustrates, membership also includes private companies, multinationals, co-operatives, financial mutuals and State owned enterprises.

Table 4.1
NZBRT members: 31 November 1986 - 31 December 1990

Financial/Investment	Forestry/Conglomerates	Oil
Brierley Investments	Fletcher Challenge	Shell
AMP Society	Carter Holt Harvey	BP
Bank of New Zealand	Elders NZFP	Mobil
Gibbs Securities	ICI (NZ)	
Corporate Investments	Crown Corp.	
Mair Astley Holdings		SOEs
National Bank	Food Processing	Electricorp
United Building Society	Goodman Fielder Wattie	Telecom
NZI Corporation	NZ Co-operative Dairy Co.	
Fay, Richwhite & Co.	McDonald Systems	Media/Printing
Wilson Neill	Waitaki (NZ)	Ind. Newspapers
Equiticorp	Alliance Group	Wilson & Horton
Post Bank		UEB Industries
	Transport	
Inter Pacific. Equity Ltd	Freightways	Construc/Prop
Westpac	Union Shipping Group	Chase Corp
Trustee Bank Holdings	Newmans Group	McConnell Dowell
Progressive Enterprises		Mainzeal
Alliance Group	Manufac./Basic Metals	
	New Zealand Steel	Liquor/Retailing
Computers	Steel and Tube	Lion Nathan
IBM	Ceramco	Magnum Corp
	Comalco	
	Feltex	Automobiles
Agriculture	Macraes Mining	Todd Motors
Fernz Corp		Toyota (NZ)

Source: New Zealand Business Roundtable. Wellington.

The NZBRT also represents a group of individuals whose companies collectively account for a significant portion of the economy's market capitalisation and GDP.[7] For example, in March 1989 the organisation's thirty five companies accounted for 77 percent of the sharemarket's total value.[8] In the same year, NZBRT companies also accounted for 17.7 percent of the nation's GDP. Thus, as a group, the NZBRT contributes almost as much to the economy as the public sector.[9] Within the NZBRT there is a significant concentration of economic weight; the four largest companies - Fletcher Challenge (2.8%), Telecom (2.56%), Brierley (2.33%) and Electricorp (1.76%) - account for nine and a half percent of GDP.[10]

Furthermore, the concentration of individual wealth within the NZBRT is extraordinary, as table 4.2 (below) illustrates. In 1989 eight individuals held over 350 million shares valued in excess of $507 million. It is significant to note that the table does not reflect the *total* wealth of these individuals, but merely indicates the shares they held in the NZBRT company of which they were Chief Executive.

Table 4.2
Selection of individual NZBRT members holdings in Roundtable companies (1988 & 1989)

Name	Company	% held	Number of shares	Tot. value of holding ($m)
A.Gibbs	Ceramco	7.05	6,974,797	8.927
R.Brierley	BIL	4.08	67,026,183	100.539
C.Herbert	Wilson Neill	33.0	89,184,604	64.212
D.Myers	Lion Nathan	12.0	49,144,690	153.822
P.Masfen	Corp. Invest.	61.0	52,744,737	92.303
P.Francis	Chase	3.08	12,509,804	6.630
Fay & Richwhite	Cap. Markets	56.0	72,842,560	81.583

Share Price as at 23.3.89.
Source: David Steel, "The Business Roundtable II", 1989, p.44.

The NZBRT also displays the second definitional characteristic identified by the model; namely, that the economic elite is *united through a variety of bonds*, with individual members forming a network of close associations; such as through interlocking directorates and shared stock. For example, the number of directorships held by Roundtable members is significant; in 1989, 31 members sat on 153 Boards, of which 146 were private and 7 State.[11] A result of this is an extensive, web-like network of interconnecting directorships extending to nearly every sector of the New

Zealand economy. This network, coupled with the NZBRT companies market dominance ensures that the organisation will have a profound effect on both the private and public sectors in New Zealand.[12]

To fully explore this network is beyond the scope of this chapter, however three brief illustrations provide an insight to its pervasive nature. Turning first to the NZBRT's immediate membership; table 4.3 (below) shows that in 1989 two or more NZBRT members sat on thirteen company and SOE Boards. Moreover, a number of these individuals sat on more than one of these Boards.

Table 4.3
NZBRT members sitting on the same Board of Directors (1989)

Private Sector Company	NZBRT member
Air New Zealand	R.Matthew, T.Farmer, R.Trotter
Baycorp Holdings	T.Farmer, C.Bidwell
Consolidated Electronics	A.Gibbs, C.Bidwell
Ceramco Corporation	A.Gibbs, C.Bidwell
European Pacific Investments S.A	L.Pyne, D.Richwhite
Freightways Ltd	T. Farmer, A.Gibbs
Lion Nathan Ltd	D.Myers, A.Gibbs
Magnum Corporation Ltd	A.Fergusson, B.Hancox, J.Keegan, R.Matthew
Printpac Ltd	R.Carter, B.Hancox
Tappenden Holdings	T. Farmer, A.Gibbs
SOE Board.	
Electricorp	R.Deane, T.Farmer, R.Trotter
Telecom	P.Troughton, T.Farmer, R.Trotter
Reserve Bank	L.Fergusson, R.Trotter (resigned 1989)

Source: New Zealand Company Register Vol 28: 1989-1990.

Second, the NZBRT's influence extends beyond its immediate membership. Most member companies have representatives on a large number of private sector and State Corporation Boards. Consequently, a substantial part of the economy is linked to the NZBRT in some way. Table 4.4 (below) partially illustrates this, showing the network of private and State sector Boards linked together by representatives from just one NZBRT company.

Table 4.4
Representatives from Fletcher Challenge sitting on private and State Corporation Boards (1989)

FCL Representative	Company/State Corporation Board
Sir Ron Trotter (NZBRT member)	Telecom, Reserve Bank
Carl Ryan	Airways Corporation
Hugh Fletcher	Air New Zealand
William Wilson	Equiticorp
David Sadler	Electricorp, Trustbank
Barry Downey	Maori Development Board
George Pearce	Lion Corporation

Source: New Zealand Company Register Vol 28: 1989-1990.

Finally, NZBRT members are also united through the ownership of the same company stock. For example, in 1990, sixty one publicly listed companies on the New Zealand Stock Exchange were owned by two or more NZBRT companies.[13] Indeed, a number of NZBRT companies have major stock interests in each other. Table 4.5 (below) illustrates this, showing the amount of shared stock held between just four NZBRT companies and its members.

Table 4.5
Company Stock shared by NZBRT members (1990)

NZBRT Company	Other NZBRT company with major interests	No. Of ordinary shares	% of ownership in company
Ceramco			
	AMP	12,041,760	12.5
	ANZ	6,712,390	6.98
	Bidwell C (indiv. holding)	2,179,989	2.27
	BNZ	7,097,019	7.38
	Gibbs A (indiv. holding)	978,369	1.02
	National Bank	330,000	0.34
	Nat. Mutual Life	1,246,998	1.30
	N.Z Insurance	1,255,000	1.08
	Shell N.Z	200,000	0.21
	Westpac	5,241,302	5.44
Goodman			
Fielder	AMP	86,638,312	9.38
Wattie	ANZ	19,180,771	1.85
	Nat. Mutual Life	49,271,132	4.77
Fletcher			
Challenge	AMP	63,084,872	6.76
	ANZ	32,824,649	5.72
	BNZ	25,981,859	2.78
	Nat. Mutual Life	60,474,034	6.46
	NZI	6,079,759	0.65
	Westpac	12,116,525	1.29
Lion Nathan			
	ANZ	9,551,176	2.42
	BNZ	6,454,100	1.64
	N.Z Insurance	771,500	0.20
	Shell N.Z	500,300	0.13
	Westpac	1,772,042	0.45

Source: Directory of Shareholders: New Zealand Public Companies ,1990.

The model's third and final definitional characteristic states that the elite's *members see eye to eye on pecuniary matters;* there is little internal dissension as the fundamental goal of the elite is to maximise profits. The model also suggests that if conflict does occur between members, it will be kept out of the public eye. These characteristics are evident within the NZBRT. First, all members share the same pecuniary objective which, as the organisation's statement of purpose indicates, is to ensure "a healthy and dynamic business sector, generating an adequate flow of profits and investment."[14] Second, while disagreements within the NZBRT are known to have taken place, most members are not usually prepared to discuss them outside of the organisation.[15] For instance, Don Rowlands, the Fisher and Paykel Group Chief Executive stated that his resignation in

August 1987 was due to "other commitments"; however it was widely known that he did not agree with the NZBRT's position on import controls.[16] Moreover, when Bruce Cole, the Chief Executive of L.D Nathan Ltd and John Eade of Winstone Ltd. left the Roundtable, both refused to comment on the reasons for their departure.[17] Those who do comment on their resignation are often vague in their explanations; when Michael Robson, the Managing Director of the Independent Newspapers Ltd. (INL) was asked if he agreed with statements made by the NZBRT, he stated that "some things I agreed with. Some things I disagreed with"; while Peter Stanes of Feltex merely stated that the NZBRT's perspectives were "not terribly relevant to Feltex."[18]

The NZBRT can therefore be seen to closely mirror the definitional characteristics of the economic elite as outlined by the model; and thus, it is accurate to assume that the organisation represents the New Zealand business community's "economic elite." Moreover, through its market dominance, interlocking directorates and commonalty of interests, the Roundtable extends its influence well beyond its immediate membership and thereby acts as a representative of a much wider section of the business community.

The Use Of Direct Access-Points By The NZBRT

The above examples also make it clear that, due to the economic weight it holds, the NZBRT has considerable potential to influence the decision-making process. As Venables observes, to some the NZBRT is the real power behind the political throne: "It is clear that the New Zealand Business Roundtable represents a major force in New Zealand's economic and political life...the Government has to take the Roundtable seriously, whether or not it agrees with its ideas."[19]

Speculation, however, is not sufficient to conclude that the NZBRT used its considerable economic weight to influence Douglas' thinking regarding the privatisation programme. The economic elite model also identifies a number of *direct* channels, or access- points, through which the economic elite can exert its economic muscle and thereby influence the decision-making process. In the following section these access-points will, in the context of the privatisation programme, be applied to the NZBRT's relationship with Douglas.

First, the model posits that the economic elite can directly influence the decision-making process through *the initial selection of party candidates* : only those who comply with the priorities of the economic leadership will be elected into the party. However, with regard to the NZBRT, no evidence supports such an assertion. Most significantly, it is argued here that the model's observation is more suited to the "open" candidate selection system that is used, for instance, in the United States. Here, party candidates are selected to represent political parties by the general population who vote for the most preferred candidate. The potential for groups, particularly those representing corporate interests, to be able to manipulate the voting patterns here is argued to be high.[20] In New Zealand, however, a "closed" selection system exists. Here candidates are chosen by a small committee consisting of members from the Party hierarchy and local electorate. This study argues that such a system makes it considerably harder for interest groups such as the NZBRT to influence candidate selection. For instance, and with reference to the New Zealand Labour Party, access onto the Selection Committee by members of the public is limited. These committees are composed of three separate interests; those appointed by and on behalf of the New Zealand Labour Party Council; representatives from the electorate concerned; and, while not formally represented, a Trade Union affiliate who is usually represented by a member from the Labour Party Council. As clause 246 of the Labour Party Constitution states:

> Only financial members resident in the electorate who have branch or affiliated membership in the New Zealand Labour Party in the electorate of not less than one year's standing...shall be eligible for election to the Selection Committee to represent the electorate.[21]

Furthermore, in order for a candidate to be successfully elected, all three representative interests on the committee would need to be individually influenced by the particular interest group. In the context of this study, the likelihood of the economic elite successfully achieving this would be slight; both the Party and its union affiliates have actively criticised much of the reform programme implemented by the Labour Government. Thus, it would be relatively difficult for a candidate who actively supported "big business" to be selected.

The second direct access-point identified by the model is through the elite *influencing appointments to governmental posts.* Again, there is no evidence to suggest that the NZBRT exerted any influence in order to secure the appointments of these posts; indeed, two observations suggest that there was no need. First, Douglas firmly believed that individual ability and competence should be the primary criterion for selection to these posts. As he stated to the Mount Pelerin Society: "Policy starts with people. It emerges from the quality of their observation, knowledge, analysis, imagination, and ability to think laterally to develop a wider range of options."[22] Consequently, there was a certain inevitability that a number of NZBRT members would be appointed to key government posts; they are some of the most experienced businesspeople in control of New

Zealand's largest companies. Kerr concurs with such a view when he stated that the "talent pool" in the New Zealand business community is limited. Thus, "pretty obvious tracks are laid to certain NZBRT members... they have been appointed because they did have considerable commercial experience." [23]

Second, Douglas made a point of appointing only those individuals to government posts who supported the reforms being implemented by the Labour Government. Again, to the Mount Pelerin society he stated that the success of the Government's reforms in the public sector, "depended on people as much as policy. Replacing people who cannot or will not adapt to the new environment is pivotally important."[24] Although from a different perspective, Piper concurs with such a view: "We have never seen a formula regarding appointments...but the Government was looking for the kind of people who could introduce accrual accounting, performance measures and do things like sacking 5000 people."[25] As the following discussion will identify, many NZBRT members had been openly supportive of Douglas' policies. Thus, it was also inevitable that some would be appointed to key government posts.

The model identifies a third channel through which the economic elite can influence the decision-making process: *from the government posts its members have been appointed to.* A number of NZBRT members were appointed to three different types of government posts from which they might have influenced Douglas' thinking on privatisation.

For instance, some NZBRT members were appointed to chair a number of <u>Special Task Forces.</u> The potential here to influence key decision-makers is obvious; a form of "bounded rationality" can take place in which the information and recommendations contained in the Task Force's report will only reflect the elite's interests. However, it is argued here that those Task Forces containing NZBRT members could not have influenced Douglas' thinking on privatisation. For example, while the Committee chaired by Alan Gibbs reviewing the public health system advocated a "two tier" privatisation policy, it was not released until April 1988 - four months after the decision to privatise was publicly announced.[26] Similarly, the SOE Steering Committee chaired by Sir Ron Trotter which was created to "complement officials' advice as well as act as a forum for the sounding of ideas and policy" first met in February 1988 - two months after the December 17 Statement.[27]

NZBRT members were also appointed to run individual SOEs as Chief Executive Officer (CEO) or given directorships on their Boards. With regard to the position of CEO, two NZBRT members are CEOs; Dr. Rod Deane (Electricorp) and Dr. Peter Troughton (Telecom). As previously mentioned, the appointment of NZBRT members to the SOE Boards has been far more numerous. Table 4.6 (below) illustrates that between 1987 - 1989 13 NZBRT members have collectively held 15 directorships on 8 different SOE Boards.

Table 4.6
NZBRT members on the SOE Boards (1987-1989)

Year	NZBRT member	SOE Board
1987	A. McConnell	Railways Corp
		Development Finance Corp.
	P.Skinner	Post Office Bank.
	D.Chalmers	Lands Corp (Chairman)
	Sir R.Trotter	Reserve Bank
	J.Todd	Reserve Bank
	D.Rowlands	Eco.Dev. Commission
	A.Hutton	Electricorp
	R.Kerr	Electricorp
1988	Sir R.Trotter	Reserve Bank (Chairman)
		Telecom (chairman)
	T. Farmer	Telecom
	P. Troughton	Telecom (CEO)
	A.Gibbs	Forestry Corp
	R.Kerr	Electricorp
	R.Deane (CEO)	Electricorp
1989		
	A.Gibbs	Forestry Corp (Chairman)
	P.Troughton	Telecom (CEO)
	A.Fergusson	Reserve Bank
	T.Farmer	Telecom
	R.Kerr	Electricorp
	Sir R.Trotter	Telecom (Chairman)
	R.Deane	Electricorp (CEO)

Source: New Zealand Government Directory, Wellington: Government Printer, 1987,1988, 1989.

Jesson states that these positions have ensured the organisation has had "direct access to political power", and as such possess the potential to influence Douglas' thinking from these positions.[28] In a limited sense, this assertion is correct; securing these positions has increased the NZBRT's already extensive network and provided it with another platform from which to lobby. However, there is no conclusive evidence to prove that the NZBRT used these positions to lobby Douglas over privatisation. More significantly, two observations suggest that even if they had, the organisation would have had little influence.

First, and as the previous chapter discussed, Douglas was determined to make the SOE's as efficient and accountable as possible. Accordingly, it is argued here that he was instinctively propelled towards privatisation because it facilitated those very objectives. Thus, any advice from the SOE

Boards regarding the merits of privatisation would have acted merely as a "confirming" rather than "influencing" factor.

The State - Owned Enterprises Act was also propelling the SOEs toward privatisation. The Act, observes Jesson, "marked a commitment to commercialisation which...involves using private enterprise as the model around which to organise economic relations."[29] Douglas, it will be recalled, is known to have accepted Treasury's view that private ownership is inherently more efficient than public. The Act's "commitment to commercialism" therefore would have been limited while the SOEs were still owned by the State. Thus, and as Beattie argues: "It was a short step from making the SOEs operate along private sector lines and actually selling them off...The directors would only have been stating the obvious [and therefore] their influence over Douglas would have minimal."[30]

The fourth direct channel identified by the model, by which the economic elite can influence the decision-making process is that of extensive *lobbying*. A number of lobbying platforms exist through which this can take place; these include the organisation's use of the media, speeches, submissions and personal contacts However, and as the following section will reveal, the NZBRT cannot be found to have significantly used any of these channels to influence Douglas' thinking on privatisation.

First, the news media can be used as a platform from which to lobby. However, and as table 4.7 (below) illustrates it is not a medium extensively used by the NZBRT. For instance, scanning five of the country's leading newspapers for *any* NZBRT related article between 1986-1990 indicates that while the total number of articles has grown annually, the overall total is still relatively low.[31]

Table 4.7
Number of NZBRT related articles in the major newspapers (1984 - 1987)

Year	N.Z Herald	Nat. Business Review	The Press	The Dominion	Akl Star
1985	1	1	2	3	1
1986	10	2	6	6	3
1987	16	14	9	12	6

Source: Newspaper file libraries. [32]

Of the total number of newspaper articles identified, less than 5 percent had any relevance to the NZBRT's views on privatisation. From this, it can be concluded that this medium is unlikely to have significantly influenced Douglas' thinking.

The use of speeches is another means by which the elite can lobby for change; however, they also were not used as a platform by the NZBRT to influence Douglas' thinking on privatisation. The NZBRT publication *Labour Markets and Employment* "contains most NZBRT speeches"[33] during the January 1986 - December 1987 period, however none specifically discuss the restructuring of the SOEs or privatisation.[34]

The use of speeches by the NZBRT, while not discussing privatisation per se, did however serve a purpose; they provided a platform from which the organisation could express its support for the free market orthodoxy which, of course, was consistent with such a policy. In particular, the theme for improved economic performance is evident in most NZBRT speeches. For instance, Sir Ron Trotter stated to the Young Nationals' Conference that:

> The present period calls for far-sighted leadership...Many policy weaknesses and threats to an improved performance still remain [such as] the labour market, the public sector and the existence of a number of economic activities that are still sheltered from competitive pressures.[35]

Accordingly, it could be argued that NZBRT speeches, while not specifically referring to privatisation per se, did act as a "feedback" or echoing mechanism for Douglas; they clearly signalled to him that the NZBRT supported the reforms the Labour Government was making in the public sector and that more could be done - such as privatising the SOEs.

The use of submissions and general studies is the most extensively used medium the NZBRT employed to generally influence the decision-making process; between April 1986 and December 1987, eleven major submissions and studies were published covering diverse topics such as indirect taxation, Town and Country Planning and the New Zealand Ports Industry. Prior to December 1987 however, the NZBRT did not produce a study or submission that specifically focused on privatisation. While this is evident, a number did, in passing, mirror Douglas' own views for the need to privatise by discussing the merits that such a programme would have - both in reducing the level of public debt as well as increasing economic efficiency.

For instance, the "efficiency argument" is clearly seen in the NZBRT submission entitled *The New Zealand Ports Industry*. Here, the organisation argued that "public and employee shareholding" should be introduced into port corporations to supplement or replace the "weak monitoring mechanisms inherent in public ownership."[36] Moreover, it went on to add:

> There are inherent limitations to the achievement of private sector levels of efficiency in 100 percent publicly owned enterprises. For this reason the attention of many governments...has switched to programmes of introducing minority or majority private shareholding into their trading enterprises.[37]

In a second submission,*Corporatisation of the Harbour Boards* , the NZBRT was more forthright. It stressed the limitations of the Government's plan to corporatise the port companies, concluding that it should give further consideration to allowing direct private participation in the ownership in these companies:

> Continued public ownership of the port companies...as proposed by the Government, will raise problems in the monitoring of port companies performance...These problems are inherent in any form of public ownership. Without free transferability of port company shares, significant monitoring incentives provided by the opportunity for takeover are also absent. [38]

The submission concluded that in view of these monitoring problems and possible conflict of interest, "[t]he clear logic of corporatisation is...the introduction of majority and, ideally, full private shareholding."[39]

The "efficiency argument" however is most clearly seen in *Better Value for Public Money;* a response to the Government's 1987 Budget.[40] In general terms, the report argues for a reduction in expenditure, revenue and borrowing in order to reduce the proportion of total economic resources being managed in the public sector. The submission goes on to outline a number of ways in which government expenditure programmes can be detrimental to efficiency, equity and economic growth. For instance, it argues that:

- government operations are often conducted inefficiently and displace more efficient private production;
- regulatory activities impose burdens and costs on the economic system and transfer income in hidden ways;
- the resulting poor economic performance minimises the opportunities from improving the position of less fortunate groups. 41

Conversely, the submission posits that a "growing body of empirical evidence more clearly established the superiority of private sector involvement in [the public sector]."[42] In concluding, it suggests that the Government:

> ...look more deeply at the range of functions which the Government is undertaking and to review the need for retaining many of them in the public sector. In advancing a programme of economic reform, it is important that the public sector carries its due share of the adjustment that still has to be undertaken.[43]

Better Value for public money also mirrored Douglas' view that privatisation would significantly help to reduce the level of public debt. Among other things, it argued that New Zealand was "one of the world's largest debtor nations per head of population" warning that the continuation of such trends would "lead ultimately to the national equivalent of bankruptcy."[44] Moreover, debt reduction through increasing the level of taxation, it argued, would have detrimental effects on efficiency, equity and economic growth. Thus, the submission concluded by stating that a good argument existed for reducing the national debt through "asset sales accompanied by a reduction in accumulated liabilities." [45]

The influence that the NZBRT submissions and publications had over Douglas must, however, be put in context. While the NZBRT clearly advocated a privatisation programme through this medium, it was not focused on by the NZBRT as an issue that warranted an individual study. Indeed, the submission that contains the most in-depth analysis of privatisation, *State Owned Enterprise Policy: Issues of Ownership and Regulation*, and concludes by stating that "privatisation is the next logical step after corporatisation", was released in April 1988 - four months *after* the December 17 1987 announcement.[46] Moreover, as the NZBRT's justifications for privatisation clearly mirror the views Douglas already held, it is argued here that they would have contributed little to the development of his thinking on privatisation.

The NZBRT's submissions also played a similar role to that of the organisation's speeches; they "echoed" Douglas, indicating that the business sector supported the overall thrust of Rogernomics and that further reforms such as privatisation would be welcomed. A good illustration to this assertion can be seen in the response Douglas gave to *Better Value for Public Money*. He noted that the submission:

> ...broadly supports the kind of tough decisions this Government has made...The Government acknowledges that the process is not complete...We remain committed to further reductions in the fiscal deficit, through the application of consistent, mutually reinforcing and predictable policies. [47]

Another channel through which the NZBRT had the potential to influence Douglas' thinking was via the <u>personal associations</u> that some of the members had with him. For example, Alan Gibbs is a close friend of Douglas whom he met at the Princess Street branch of the Labour Party.[48] As the discussion has already identified, Gibbs has been a key figure in the events between 1984 - 1987, becoming the Government appointed head of the Forestry Corporation and heading the Hospital Task Force. Moreover, it will be recalled that he is a firm advocate of privatisation. Roger Kerr, the NZBRT's Executive Director, is also a friend of Douglas and is said to have had "easy access" into the Beehive during the period Douglas was Minister of Finance.[49] Kerr was a member of the "Kitchen Cabinet"; an unofficial circle of advisers who, according to Jesson, "wielded more influence than many in the regular Cabinet."[50]

It can be assumed that the personal contacts NZBRT members had with Douglas prior to December 1987 could have contributed to his thinking on privatisation. This is particularly so given that the development of Douglas' thinking is attributed to "his ability to pick up ideas from articles, casual conversations and his own observations and then to test them on his confidants."[51] However, it is methodologically difficult to quantify exactly *how much* influence these informal contacts had over Douglas.

Further methodological problems arise when attempting to quantify the influence that NZBRT members had in the variety of different roles they played; were these individuals representing the NZBRT per se in the variety of official and informal roles they played? Moreover, if these individuals *did* influence Douglas in any way, was it because they were members of the NZBRT or simply due to their own powers of persuasion? Such amorphic questions are difficult to resolve. Three examples are illustrative. First, while the Special Task Force that produced the report *Unshackling the Hospitals* was chaired by an influential NZBRT member and did reflect many of the organisation's views, he was not representing it in any formal way. Thus, can it be said that the NZBRT was being represented in this instance? Indeed, Kerr notes that the NZBRT "did not have any involvement with the formation of the report or have any input whatsoever on the general debate on health reform."[52] A similar argument can be advanced for the NZBRT members who sat on the SOE Boards. Kerr asserts again that a Roundtable member sitting on an SOE Board "is just not relevant" to the policies discussed in the organisation.[53]

Finally, while the NZBRT per se has received relatively little media coverage, a number of its members have been more widely reported. However, they are not individually identified as members of the NZBRT, but rather as leaders in the "business community." Thus, when Alan Gibbs' personal views advocating privatisation were quoted in an article titled: "Business Leaders Favour Bigger State Cuts", was he representing the NZBRT or himself?

The final direct channel identified by the model through which the elite can influence the decision-making process is *through the decentralised structure of government*. As chapter three discussed (with reference to the Treasury) government decision-making is primarily a decentralised process; the majority of substantive work on policy proposals occurs in specialised administrative agencies. Thus, the model argues, the economic elite can impact on the decision-making process by influencing these agencies.

This aspect of the model has no real application to the relationship between the NZBRT and the Treasury. An analysis of the Treasury's expenditure on consultancy contracts relating to the asset sales programme shows that while eleven separate SOE studies were commissioned by the end of 1987, none involved individual NZBRT members or companies.

More importantly, the NZBRT had no real need to "influence" Treasury's thinking on privatisation. As the discussion here and in chapter three has shown, between 1984 and 1987, both organisations were espousing the same debt and efficiency arguments that justified the need for such a programme. Such was the consistency in outlook between both organisations, that the NZBRT has been called the "public relations branch of the Treasury."[54] The similarity in outlook is also well illustrated by the comments that some NZBRT members have made. For instance, one complained that "half of what we've been producing lately, I can't understand myself. It's speaking Treasury language."[55] Another stated that he disliked the "Treasury-type presentation of policy ideas" as it took him "a long time to understand the gobbledegook."[56]

This consistency in thinking between the NZBRT and Treasury reflects the close personal links that exists between the two organisations. The primary link is through Roger Kerr who, in 1986, left his position as Assistant Secretary at the Treasury to become Executive Director of the NZBRT. Kerr's departure from the Treasury was seen as the Department's most significant defection to the private sector. He had been responsible for key economic policy and headed the Economics II team that wrote *Economic Management* in 1984. It will be recalled that *Economic Management* gathered together the various conceptual strands of the supply-side consensus that was emerging from the business community; it stressed a "hands off" style of economic management suggesting that Trading enterprises in the public sector be organised as SOEs, and that further efficiency gains could be made if these enterprises were privatised.[57]

It is clear from the above discussion that the NZBRT exerted little, if any, *direct influence* over Douglas regarding the privatisation programme. This is so, even though the Department had numerous access-points to advocate for its implementation. Such an observation clearly contradicts the model's assertion that the economic elite uses *direct means* to influence the decision-making process. As such, the relevance this part of the model has to this study is questionable.

The model concludes by asserting that the "close relationship" between business and government yields a number of results; the most significant being that *the Government's decisions will benefit and further the priorities of the economic elite.* While the means have been shown to differ between the model and the facts surrounding this study, the ends, however, are the same; the privatisation programme brought considerable economic benefit to the elite in a number of ways. Such an assertion can be illustrated in three ways.

First, and most significantly, the privatisation programme has enabled five NZBRT companies to increase their market dominance in the economy. As Table 4.8 (below) shows, Brierley's now has a major shareholding in an airline that, in 1989, was the country's largest offshore revenue earner ($200 million);[58] Fletcher Challenge extended its already dominant portfolio base by acquiring the Rural Bank and New Zealand's foremost oil and gas explorer, producer, distributor and processor;[59] both Fay, Richwhite & Co. and Freightways own 5 percent of the largest player in the country's telecommunications market; and the ANZ now owns a Retail Bank that, in 1990, commanded a 7 percent share of the retail bank market.[60]

Table 4.8
Strategic strength of NZBRT acquisitions (1989)

Business	NZBRT owner	Net profits($m)	Assets ($)	No. of emp.
Air New Zealand	B.I.L (45%)	81.9	1.27 billion	8,621
Rural Bank	F.C.L (100%)	173.0	21.8 million	420
Post Bank	ANZ (100%)	31.1	5.27 million	3,150
Petrocorp	FCL (100%)	188.4	N/A	724
Telecom	Fay/R'white (5%)			
	Freightways (5%)	198.0	4.2 billion	19,000

Source: Annual Company Reports. 1989-1990.

Second, the NZBRT companies - and in particular, Fletcher Challenge - purchased some of these assets for a price well below their bookvalue. For example, the Rural Bank had its sale price depressed for two reasons. First, the desired competitive bidding process that the Government hoped would push the Bank's price up did not occur as only one credible bid was received. Thus the process was turned into a negotiated sale. Second, the Bank was not accurately valued prior to the sale.[61] Fletcher Challenge paid $550 million for the Bank based on a projected forecast that posted a trading profit of $32 million for the 1989/1990 financial year. However, the Rural Bank's real after tax profit in that year turned out to be $115 million - three and a half times the forecast of $32 million. Accordingly, the Rural Bank was sold for approximately $200 million less than if it had been properly valued.[62] Fletcher Challenge also made significant financial savings when it purchased Petrocorp. The ammonia-urea plant had sustained considerable losses resulting in substantial on-going debts; accordingly, prior to the sale, the Government passed special legislation allowing the would-be owners to deduct $1 billion from their tax bill.[63]

Finally, a number of private sector advisers have received substantial consultancy fees and commissions from their assistance to the

Government in the asset sales programme. The Treasury's expenditure on fees paid to these advisers illustrates this; from December 1987 through until June 1990 the Department spent $77 million on seventeen SOE related projects.[64] As table 4.9 (below) illustrates, two NZBRT members received a substantial part of this total sum.

Table 4.9
NZBRT consultancy fees (December 1987 - June 1989)

			(figures in $000)	
NZBRT member	Project	1988/9	1989/90	Total
Fay, Richwhite	THC	220,000	581,000	808,317
	Govt Print	156,750	434,881	591,637
	TVNZ	0	156,000	156,000
Forestry Corp	Forestry	0	24,362,071	24,362,071

Source: The Treasury ,Wellington.

The Nature of Douglas' Relationship with the NZBRT

Having applied the economic elite model to this study, it is clear that an inconsistency between the two exists. The model posits that the benefits enjoyed by the economic elite are a result of it using *direct* means to influence the decision-making process. However, the discussion in this chapter has clearly shown that the NZBRT enjoyed the same benefits from little or no direct influence. How can such an inconsistency be explained?

An answer lies in defining what exactly is meant by the "close relationship" shared between the economic elite and the Government. If, as the model posits, this relationship consists of *continuous and direct* contact between both groups, then its relevance to this study is clearly limited. However, the interaction between the two can be viewed another way. Lindblom, it will be recalled, posited that the economic elite *does not need extensive contact with key decision-makers*. The relationship that exists between the two groups can be symbiotic; government officials cannot be indifferent to business performance because a failure in the market system can easily spell its downfall. Furthermore, he argues, because the business elite must be induced rather than commanded to perform by the Government, the relationship is one of "mutual adjustment" that operates largely through an unspoken deference between both groups. Thus, the business community needs little direct contact with the Government because its interests and wishes will be automatically considered. Lamare concurs with Lindblom's observation by stating that corporate control over the economy "can become an important consideration in policy-making without the direct intervention by business, singularly or in unison, into political affairs."[65] It is argued here that such a relationship existed between Douglas and the NZBRT, and accordingly, there was little need for any significant contact between the two. Three observations illustrate this.

Douglas' Predisposition toward Private Sector Interests

First, Douglas was *predisposed to considering private sector interests*. As previously mentioned, since 1984, the Government had been implementing policies that shifted much of the decision-making from the State to the market. Douglas recognised that the most lasting economic growth in this new "more market" environment would only take place if those making the investment decisions in the market had confidence in the type of strategies the Government was implementing.[66] Thus, the Minister was predisposed to considering private sector interests and how they reacted to Government policy. The implementation of the privatisation programme can largely be viewed in this context. The Treasury advised Douglas that the continued high level of public debt would result in a loss of confidence from the finance market. This uncertainty would, it was argued, undermine the gains that had already been made; high interest and exchange rates would result in discouraging capital investment and, through the impact of the exchange rate, place undue pressures on local industries facing international pressure.[67] In short, the health of the overall economy was seen to predominantly rest on the confidence held by the private sector. Accordingly, Douglas believed that in order to maintain this confidence, he would need to significantly reduce the level of public debt. Privatisation, of course, provided the means to do this.

Favourable Disposition Toward the NZBRT

Second, the need for direct contact was further reduced because of Douglas' *favourable disposition toward the NZBRT as an interest group.* He admired the organisation because it was "prepared to go back to first principles and argue from there instead of presenting usual parochial points of view."[68] Conversely, other interest groups had been "pathetic" in their short-sightedness. As he once wrote:

> New Zealand would take a big leap forward if Manfred, the Employers' Federation, the Federation of Labour and the Combined State Unions were half as good at taking a broad approach which truly served the medium-term interests of their members.[69]

Douglas' favourable disposition toward the NZBRT largely stems from his own association with the private sector; first as Company Secretary for Bremworth Carpets in the late 1960s, and later with Red Seal, the family health food business which he managed for a number of years.[70] It is argued here that Douglas' prior experience in the private sector lessened the need for extensive NZBRT contact in two ways. First, it contributed to his "pro-business" outlook; he admired the businessperson's practicality, individuality and more importantly, could empathise with their concerns. The NZBRT did not therefore need the same amount of contact as other groups in order to "sell" its point of view. Second, and as already mentioned, Douglas' own business background resulted in a number of close friendships with influential members of the business community. These friendships, no doubt, also ensured that he was constantly informed about developments and issues in the business community as a whole, further reducing the need for official contact with the NZBRT.

Consistency in Thinking and Development of Events

Finally, there was little need for direct contact between Douglas and the NZBRT because of the *consistency in overall economic thinking* they both shared. Since 1984, and as the discussion has indentified, the NZBRT has consistently and vigorously espoused the supply-side economics of the new right; stressing the value of the market and the need to limit the role of government in society. Indeed, this is reflected in the organisation's statement of intent:

> [The NZBRT] believes the living standards and general prosperity of the New Zealand community are best served by a free enterprise system and market-orientated economy. It supports the concepts of competition, entrepreneurship and risk-taking...[and] a medium term policy framework which is neutral and consistent....[71]

This belief in the freemarket orthodoxy is, of course, consistent with both Douglas' own thinking and the economic reforms that the Labour Government was implementing throughout the 1984 - 1987 period. With regard to privatisation, and as this study has already shown, both Douglas and the NZBRT were clearly in favour of such a programme. The NZBRT would therefore have had little difficulty in concluding that Douglas was of a like mind.

Furthermore, Douglas' rhetoric was closely followed by a series of reforms in the public sector which suggested that a privatisation policy would eventually be implemented. The previous chapters have discussed these reforms in some detail, however a brief chronologic survey of these events is illustrative here.

Figure 4.10
State sector reform - chronology of events leading to the December 17 Statement

December 12 1985 - Economic Statement

Douglas announces a set of principles for SOEs that produce goods and services on a commercial basis:

1) Separation of commercial from non-commercial SOEs.
2) Principle objective of the SOEs is to run them as a successful business enterprise.
3) Managers given responsibility for decisions on the use of inputs, and on pricing and marketing their outputs. Managers will also be held accountable to Ministers.
4) Unnecessary barriers to competition will be removed so that a commercial criteria will provide a fair assessment of managerial performance.
5) Board's of Directors will be established comprising of, generally, members from the private sector.

May 1986 - Statement of Government Expenditure Reform

Douglas stresses the need for a reduction in the level of government expenditure. Therefore, in order to ensure greater public sector efficiency, the five principles outlined in the December 12 Statement will be applied.

October 1986 - Partial sale of New Zealand Steel

87 percent of the Crown's holding in NZ Steel is sold

January 1987 - Partial sale of the BNZ

The Government announces it will float 13 percent of its holdings in the BNZ; the largest such issue in New Zealand's history thus far.

April 1987 - State Owned Enterprises Act

SOE Act comes into effect, establishing nine new State Corporations that will operate along private sector lines.

June 1987 - Budget

Citing the high level of New Zealand's public debt, Douglas announces that a number of asset sales will take place: Development Finance Corporation(100%); Petrocorp(100%) and Air New Zealand (25%). In doing so, he states the Government recognises "that these are now commercially viable businesses for which government ownership serves no special purpose."

December 17 1987 - Economic Statement.

The Government announces that it will implement an "on-going" privatisation programme to help reduce the level of public debt.[72]

Thus, the NZBRT knew that not only did Douglas share its views on privatisation but the development of events surrounding the SOE reforms suggested - and irrespective of denials the Government was making at the time - that a privatisation programme would eventually be implemented. For these two reasons, it is asserted here that the NZBRT had no need to lobby Douglas. As Kerr reflects:

> It was pretty obvious that Douglas' well known desire to reduce debt and improve efficiency coupled with the implementation of the corporatisation policy both pointed to privatisation somewhere down the track...If Labour didn't do it, then National would.[73]

Linking the lack of direct influence to the consistency in thinking can be effectively illustrated by showing how vocal the NZBRT was when it clearly *disagreed* with Government policy. For example, the NZBRT stood completely opposed to the Government's Labour Relations Act (1987), condemning it for what it saw as the Act's perpetration of a form of compulsory unionism, and its emphasis on large, centralised structures. In particular, it rejected the idea of a 1000 - member starting limit for unions. Consequently, the NZBRT considered the act inadequate and stressed that further reform was deemed necessary. Stated Douglas Myers, Deputy Chairman of the NZBRT:

> The Government's failure to come sufficiently to grips with the challenges of labour market reform is one of the biggest disappointments of the last three years. It is imperative that real progress is made...[74]

Accordingly, the NZBRT has extensively lobbied for changes to the Labour Relations Act and issues relating to labour market reform. For instance, it has presented a number of submissions to the Government arguing for a more decentralised labour market. More significantly, the NZBRT has sought to target a wider audience by publishing a booklet *Freedom in Employment: Why New Zealand needs a flexible decentralised labour market.* which outlines the "benefits" of a decentralised labour market. It also has commissioned a market research firm to produce *Industrial Relations in New Zealand: A survey of Public attitude* which concludes that "New Zealanders would like to see a roll-back of union power and influence. They believe there should be more free market choice in the labour market and an emphasis on enterprise-based initiatives."[75]

A significant number of speeches have also been presented by key NZBRT members, criticising the Labour Relation's Act; moreover, those speeches have been drawn together in a publication *Labour Markets and Employment* in order to "provide a convenient point of reference for readers interested in further background in this important topic."[76] Finally, a number of media releases have been issued by the NZBRT focusing on labour market reform. Indeed, of the five newspapers surveyed for this study between 1984 -1987, 62 percent of all NZBRT related articles focused on its criticism of the Government's handling of labour market reform.

Conclusion

How much influence did the NZBRT have over Douglas with regards to privatisation, prior to December 1987? The economic elite model provides only limited insight. The model does offer a useful framework for defining the economic elite as well as identifying an outcome that concurs with the findings in this study. However, the most important aspect in relation to this study - identifying how the elite influences the decision-making process - has been difficult to test.

Two concluding observations can be drawn from this outcome. First, the difficulty in operationalising the model could be attributed to a weakness in the model's own framework. The discussion here has shown that where both the decision-makers and economic elite have been in agreement over a particular issue, the model's criteria has been largely redundant in explaining the nature of the relationship. However, the model is seen to be far more operational when an antagonistic relationship exists between the two groups; the "access-points" are more openly used, and thus, any "influence" is easier to identify. It is therefore asserted here that the model is most effective in analysing relationships where some degree of conflict exists.

A second concluding observation could be that the characteristics of this study rather than the model itself created limitations in an analysis of the NZBRT's relationship with Douglas. Some informal contact clearly existed between NZBRT members and Douglas prior to, and throughout the 1984 - 1987 period. Accordingly, such contacts could have influenced Douglas' thinking. However because of their informal nature, it is difficult to accurately assess how influential these contacts were. Moreover, due to the amorphous nature of the NZBRT, it is methodologically difficult to separate the influence between the individual and the organisation.

Both these conclusions, however, assume that the NZBRT was exerting some form of direct contact with Douglas; in other words, through overt or covert means *it attempted to actively influence the decision-making process* . Perhaps, and as the discussion in this chapter has suggested, the NZBRT simply had no need to influence the decision-making process? Lindblom's thesis provides a framework through which such an assumption can be assessed. Both the NZBRT and Douglas clearly shared similar if not identical views, not only with regard to privatisation but also in the way the economy should be managed. Moreover, the implementation of the corporatisation programme and the partial privatisation of some State-owned assets were a clear signal to many that privatisation would, eventually, be implemented. Accordingly, and as Swier remarks, "the Roundtable just had to sit back and wait."[77]

Endnotes:

1 Bruce Jesson., Behind the Mirror Glass: The Growth of Wealth and Power in New Zealand in the 1980s , (Auckland: Penguin, 1987), p.65.

2 Roger Kerr., *"The New Zealand Business Roundtable: Roles and Goals "*, Paper presented to the Auckland Rotary Club, Auckland, 12 November, 1990.

3 For a brief, but concise discussion of the elite model see, for instance, James Lamare., Texas Politics: Power and Policy , (St.Paul: West Publishing, 1981), p.7.

4 Brian Roper., "Limits to the State: Economic Crisis, the Politics of Business and Supply-Side Economic Policy in New Zealand", Paper delivered to the APSA Annual Conference, University of New South Wales, Sydney, September, 1989, p.39.

5 Ibid.

6 There are actually two current members who, in fact, are not holding Chief Executive status. Sir Ron Trotter and Alan Gibbs, are both NZBRT members due to their high-standing in the business community.

7 " Market capitalisation" refers to the number of shares in a company multiplied by its share price. In other words, it reflects the current market value of the company. Only publicly listed companies can have their values measured in this way. Private Companies (such as Fay Richwhite) do not have publicly listed shares and thus, cannot have their net worth measured in this way. Murdo Beattie., Wellington, 15 August, 1990.

8 David Steele., The Business Roundtable II , (Wellington: Trade Union Education Authority, 1989), p.12.

9 Ibid., p.16.

10 Ibid.,

11 Ibid., p.5.

12 David Venables., "Our Old Boy Network", The New Zealand Listener , 16 April, 1988, p. 36.

13 New Zealand Company Register., Vol 28 , 1989-1990.

14 New Zealand Business Roundtable., Freedom in Employment:Why New Zealand Needs a Flexible Decentralised Labour Market , June 1987, p.14.

15 The most notable exception arose in January 1987 when a draft submission to the Government was leaked to the Media, resulting in a number of NZBRT members publicly dissociating themselves from the draft's recommendations.

16 National Business Review., 31 August, 1987. Cited in Nicola Natusch., "An Analysis of the influence of the New Zealand Business Roundtable Since Its

continued...

Inception", (Unpublished) MBA paper, (Wellington: University of Victoria, February 1990), p.32.

17 Natusch., Ibid.

18 The Dominion., 23 June, 1988, Quoted in Natusch, p. 33.

19 Venables., p.37.

20 From a discussion with James Lamare., University of Canterbury, November, 1990.

21 New Zealand Labour Party., "Constitutions and Rules" , Revised edition, (1984), p.25.

22 Roger Douglas., "The Politics of Successful Structural Reform", Paper delivered to the Mount Pelerin Society, Christchurch, 28 September, 1989. p.11.

23 Roger Kerr., Wellington, 16 October, 1990.

24 Douglas., 1989, p.11.

25 Sue Piper., "The PSA's Views on the Privatisation Programme", PSA Document, 1990.

26 NBR., April 6, 1988, p.1.

27 Letter from Ron Hamilton., SOE Advisory unit, November 6, 1990.

28 Bruce Jesson., Fragments of Labour: The Story Behind The Labour Government , (Auckland: Penguin, 1989), p.82.

29 Ibid., p.87.

30 Murdo Beattie., Wellington, 15 October, 1990.

31 The criteria used to select articles for this table involved choosing those which focused on an individual who was identified in the article as being an NZBRT member.

32 A cautionary note must be made with reference to these figures; they were derived from scanning all *available* NZBRT related articles held in each of the Newspaper's "clippings library." Obviously, some articles may have been missing from the relevant files. Thus, while the table provides an overall indication of NZBRT articles published, this study does not presume it to represent the *exact* number of articles written by each of the newspapers.

33 Roger Kerr., Wellington, 16 October, 1990.

34 New Zealand Business Roundtable., Labour Markets and Employment , April, 1988.

35 Ibid., p.13.

36 New Zealand Business Roundtable., The New Zealand Ports Industry: A Submission on the Report of the Ports Industry Review Committee , August, 1986, p.ii.

continued...

37 Ibid., p.19.

38 New Zealand Business Roundtable., Corporatisation of Harbour Boards: A submission to the Minister of Transport, August, 1987, p.4.

39 Ibid., p.11.

40 New Zealand Business Roundtable., Better Value for Public Money: The Government's 1987 Budget and Medium Term Fiscal Policy, July, 1987.

41 Ibid., p.7.

42 Ibid., p.8.

43 Ibid., p.19.

44 Ibid., p.1.

45 Ibid., p.15.

46 New Zealand Business Roundtable., State Owned Enterprises: Issues of Ownership and Regulation, April, 1988, p.ii.

47 The Evening Post., 27 May, 1987.

48 Bruce Jesson et al., "The Libertarian Right", in Revival of the Right: New Zealand Politics in the 1980s, (Auckland: Heinemann Reed, 1986), p.48.

49 The New Zealand Times., 18 January, 1987, p.13.

50 Jesson., 1989, p.82.

51 Natusch., p.66.

52 Roger Kerr., Wellington, 16 October, 1990.

53 Ibid.

54 The Dominion., 24 April, 1989.

55 The New Zealand Times., 18 January, 1987.

56 Ibid.

57 Roper., p.60.

58 Air New Zealand., Annual Report, 1989, p.3.

59 Petrocorp., Annual Review, 1988, p.1.

60 ANZ Bank., Phone Interview: November 22, 1990, Corporate Affairs Division, Wellington.

continued...

61 NBR., "Shoeshine", 5 October, 1990.

62 Ibid.

63 S. Cave., "The Companies They Don't Keep", The New Zealand Listener , 3 December, 1988, p.28.

64 These figures were complied from a series of confidential documents entitled "Private Sector Advisers to Business Sales", Industries Branch, October, 1990, The Treasury, Wellington.

65 Lamare., 1988, p.81.

66 Geoff Swier., Wellington, 15 October, 1990.

67 The Treasury., *"Fiscal Strategy"* , Budget Report No.35, 9 April, 1987, p.6.

68 Roger Douglas and Louise Callan., Toward Prosperity, (Auckland: David Bateman, 1987), p.79.

69 Ibid.

70 For a good insight into Douglas's involvement in these industries, see, for instance, Chapter Two in Toward Prosperity.

71 New Zealand Business Roundtable., Freedom and Employment , p.14.

72 Refer to the discussion in Chapter One.

73 Roger Kerr., Wellington, 16 October, 1990.

74 Roper., p.52.

75 New Zealand Business Roundtable., Industrial Relations Issues in New Zealand: A survey of Public Attitudes , December, 1988, p.2.

76 New Zealand Business Roundtable., Labour Markets and Employment , April, 1988, Introduction.

77 Geoff Swier, Wellington, 15 August, 1990.

Chapter Five

Conclusions

To New Zealanders, the Government is a friend. It does things for them which they want done.[1]

This is a debate about democracy...it is a public disgrace that the Government...has blatantly refused to discuss with the community the biggest asset transfer since the Land Wars of last century.[2]

Introduction

This chapter seeks to make some concluding remarks based upon the findings in this study. The elitist assumption will be briefly discussed first, examining the fate of New Zealand's supposedly "pluralistic" political system after 1984. The discussion then turns to examine the utility of the models used to analyse the power held by the Treasury and NZBRT. Finally, the study concludes with a number of observations pertaining to the analysis of political power.

The Elitist Assumption - A Pluralistic Political System?

The fundamental assumption underlying this study has been that the formation of the privatisation programme was elitist in nature. While the elite model was not extensively "tested", the broad assertions contained within it have clearly been shown to exist in this study. As already outlined, the masses were totally *excluded from the decision-making process* prior to the December 17 Statement. Indeed, even after the announcement to privatise had been made, the Government continued to exclude public participation by pushing the enabling legislation though the House under urgency. The privatisation programme also failed to *reflect the demands of the masses.*; public opinion at the time indicated to the Government that a substantial percentage of the population opposed any moves to privatise the SOEs - yet it chose to ignore these signals. The masses were also largely *ill-informed* about the Government's intentions regarding privatisation; on a number of occasions it had categorically denied that such a programme would be implemented. Finally, there was a *general consensus of opinion* between those groups that did have some degree of influence in the decision-making process. Douglas, the Treasury and NZBRT all espoused the same justifications for the need to privatise. Thus, the policy outcome can be said to have *reflected the interests and values of the ruling elite* and not the masses.

The elitist assumption is further supported by the fact that none of the criteria contained in the pluralist model are evident in this case study. The above findings clearly show that with regard to the privatisation programme at least, the political system did not consist of an "intricate balance of power amongst overlapping economic, professional, religious, ethnic and other such groups." The masses also did not play a "crucial role" in the decision-making process. Finally, the policy outcome did not reflect the "diverse and large range of interests that exist within the community." [3]

In the light of such an outcome, a pertinent question can be asked: how pluralistic is the New Zealand political system? While a comprehensive answer to such a question is beyond the scope of this study, a number of brief observations can be made.

Obviously, in the wider sense of the word, the New Zealand political system is "pluralistic." There are a considerable array of checks and balances to ensure that some degree of political accountability and interaction between the elite and masses exist.[4] Indeed, legislation passed in recent years has sought to increase the degree of public participation in the decision-making process. The Official Information Act (1982) for example, is aimed at enhancing "the ability of the public to exert some influence on policy formation."[5] The purposes of the Act as set out in section 4 are:

> (i) To enable their more effective participation in the making and administering of laws and policies: and
> (ii) To promote the accountability of Ministers of the Crown and officials, - and thereby to enhance respect for the law and to promote the good government of New Zealand. [6]

No doubt, based on such developments, Palmer has felt able to optimistically state that:

> Greater opportunity for public participation in all important decisions on a continuing basis will improve the decisions and be more democratic. That has been the direction in which New Zealand has been travelling in recent years - more information about decisions is made available and more public participation in those decisions encouraged.[7]

However, notwithstanding a number of individual initiatives such as the Official Information Act, it is argued that the public policy process has become increasingly more "elitist" since the fourth Labour Government came to power in 1984. There is no question that it brought about considerable change. However, this change has not only been in terms of substantive government policy; it has also been the process of political decision-making itself. As Mulgan observes:

> ...the political system has been moving away from a relatively populist style, marked by a high degree of popular participation, corporatist consultation of interest groups, and responsiveness of politicians to the demands of the electorate. It is becoming a more elitist, technocratic system with greater influence being exercised by expert[s]...and less by other groups and members of the public...[8]

The privatisation programme was not the only policy initiative to reflect such a trend. The Government can be seen to have arbitrarily broken promises made to the public and/or excluded the public from the decision-making process on a number of occasions. Three examples are illustrative. In the Budget of November 1984, the Government introduced a surtax on national superannuation, changing it from a universal entitlement to a targeted, means-tested allowance. This was done, however, despite an election policy in which the Government promised that "the basic National Superannuation structure is to remain."[9] Moreover, not long after the 1987 election the Government, without consulting the Combined State Unions, introduced the far-reaching State Sector Bill in Parliament. It then proceeded to rush it through the proceedings in the House despite continuing objections from the unions. Such an action clearly contravened an election promise stating that the Government would initiate "consultation and fair negotiation with its employees and Unions" as well as the statement that it was committed to providing a pay-fixing mechanism "which is agreed upon after full and proper negotiations with State sector unions and which is fair to both parties."[10] Finally, the Government can be seen to have broken its promise regarding the implementation of a "user-pays" scheme in tertiary institutions. Prior to the 1987 election, MPs had publicly assured interested parties that there would be no moves toward user-pays in tertiary education. Indeed, these verbal promises were confirmed in the election policy which stated that a

Labour Government would "ensure that tertiary students are not required to pay a higher contribution to their own education than they do at present."[11]

In adopting this more elitist style, it seems that the Government's general rationale was, as Mulgan puts it, "to govern in the public interest as it saw fit. It could not be bound by election promises any more than it could become prey to pressure from sectorial interests." [12] Douglas made the point more starkly. The most effective policies were those that were *apolitical*. As he once remarked:

> [The three Ministers of Finance] said "let's put together a programme that is economically sound regardless of politics." What we found was that the politics of such a programme was excellent. We have followed that technique ever since...The only times we have faltered in our support in the polls have been on the few occasions we have tempted to be "political."[13]

While such an attitude may be admirable in terms of achieving desired objectives, it arguably is less so for those who cling to democratic values. Certainly, the degree of knowledge about the details of party policy have always been incomplete. Indeed, it can also be argued that sectorial interests have unduly influenced the decision-making process in the past. A Government who listens to its expert advisers rather than interest groups will, arguably, make better decisions.[14] However, the extent to which the Government arbitrarily broke election promises, excluded the public from the decision-making process, and showed little compunction about having done so, was arguably too extreme. The Government, it seems, paid the price for such an attitude, losing the 1990 election in the largest landslide this country has seen. There is a certain sense of irony, therefore, in Palmer's observation that "[d]espite the confidential nature of the decision-making process, most arguments in favour of a policy need to withstand the scrutiny of the public gaze in the end."[15]

Palmer's remark coupled with the outcome of the 1990 General Election suggests, therefore, that while the decision-making process became decidedly elitist in nature after 1984, the fundamental plurality of the New Zealand political system has remained intact. In other words, while Governments in New Zealand may choose an elitist style of political management, they cannot distance themselves too far from the masses who ultimately decide their fate in the general election.

The Utility of the Models and The Difficulties in Analysing the Concept of "Power"

With the elitist assumption established, the study focused on the Treasury and NZBRT; two groups that have been identified by political commentators as having significantly influenced the decision-making process during the Labour Government's two terms in office. It will be recalled that the purpose in applying the models was to analyse the influence that each group had within the decision-making process of the privatisation programme. In other words, the question each sought to answer was, "how much political power did these groups have?"

The Bureaucratic and Bounded Rationality Models

The bureaucratic and bounded rationality models were both useful in identifying the variety of ways in which the Treasury could have influenced Douglas' thinking on privatisation. For instance, the bureaucratic model identified that the Treasury contained experts in economic policy who had a far greater understanding of complex economic issues than Douglas. Its officials were also of a similar social and educational background, which meant that they spoke with "one voice" and, as such, could be easily identified and associated with by likeminded individuals and groups. The Department was also seen to be a pervasive influence in the realm of economic policy, dominating the nature and content of economic advice that Douglas received. Finally, and in conjunction with the bounded rationality model, it was shown that the Department also had the ability to control and manipulate the information it gave to the Minister. However, while these criteria provided a considerable amount of descriptive insight, it is argued here that they failed to accurately reflect the Treasury's power in this case study. Two observations support this assertion.

First, the models are argued to have *overstated* Treasury's power in influencing Douglas' thinking on privatisation. This was largely due to the successful operationalisation of the models' criteria - resulting in an outcome suggesting that the Treasury did "capture" Douglas' thinking. Indeed, this conclusion seems to be confirmed, as the arguments used by Douglas to justify privatisation mirrored those given to him by the Department. However, further analysis suggested that the models provided a fundamentally unbalanced picture in that they failed to identify that Douglas was influenced by a wider set of important variables quite unrelated to his relationship with the Department. These included: his own thinking, (which was consistent with the Treasury's, and which was largely influenced by events prior to 1984); his principles, (which were consistent with the implementation of a privatisation programme); and finally, his dominant personality and "hands on" management style (which would have lessened the likelihood of any "bureaucratic capture" taking place). With this more "balanced" analysis established, it was concluded that Douglas, not the Treasury, controlled the overall decision-making process with regard to the privatisation programme.

Second, while Douglas may not have been "captured" by the Treasury, there can be little doubt that he was influenced *to some degree* by the advice he received. It will be recalled that this could have been done in a number of ways. For instance, a clear development of argument can be seen to have developed over time. At first, the Department did not advocate privatisation *per se.* Instead, it stressed the limitations to improved economic efficiency that would be gained by merely corporatising the SOEs. The transparency of such an argument is apparent because it begged the question "what would improve economic performance?" The answer of course was provided in the form of a privatisation programme, which the Department began to directly advocate toward the end of 1986. The Treasury's treatment of the "debt argument" can also be seen to have followed a similar developmental process. At first, its advice merely stressed the "increasing burden on the taxpayer" and the "negative" impact it was having on the growth of the economy. However in time it began to directly link an assets sales programme with a reduction in the level of debt. In both cases then, the Minister was presented with the issues and then offered a solution - which was of course privatisation. Treasury's advice to Douglas was also devoid of any political considerations; the arguments were simply presented as a technical solution to an economic problem. The presentation of the issue was served in such a way to isolate and simplify what were, in reality, a number of politically volatile issues. It also made justifying of the programme's implementation easier; the language of economics gave an aura of authority, and it was able to be argued as a technical matter rather than one of political belief. Finally, and with the aid of the bounded rationality model, the Treasury can be seen to have used a *satisficing process;* providing information that was consistent with the Chicago school of thought only. This meant that the advice Douglas received was consistent and as such, continually reinforced itself. Furthermore, it also resulted in Douglas receiving a "bounded" view of the problem and issues. He consequently had little opportunity to form a reasoned opinion based upon any alternative viewpoints.

However, because Douglas was already predisposed to the idea of privatising the SOEs by 1984, it is difficult to establish exactly *the degree* to which he was influenced by this advice. In other words, how much was the advice "converting" or simply "re-inforcing" his existing thinking? If an antagonistic relationship had initially existed in 1984, with Douglas being "converted" to the Department's point of view over time, then perhaps a more conclusive picture of its influence might have been drawn.

The Economic Elite Model

The economic elite model identified a different set of problems associated with an analysis of the political power held by groups in society. While the model's outcome concurred with the findings in this study - namely, that the economic elite benefited from the policy outcome - it provided only a partial and inconclusive insight as to how this outcome was reached. As explored, the economic elite model's criteria effectively identified the NZBRT as the business community's "economic elite", and the access-points through which it may have influenced Douglas' thinking. However, little evidence could be found demonstrating the NZBRT's use of these access-points. Even when contact between Douglas and the NZBRT was established, significant methodological problems made it difficult to ascertain how influential the organisation may have been. For example, it was difficult to separate the NZBRT's influence from that of its individual members. Consequently, is it therefore valid to assume that the NZBRT had "direct access" into the decision-making process simply because some of its members held important government posts? More to the point, if these individuals *did* influence Douglas, was it because they were members of the NZBRT, or simply because they had the ability to provide a plausible argument? Such amorphic questions were unable to be resolved in this study.

Lindblom's thesis provided more of an insight into the seemingly distant and impersonal relationship between Douglas and the NZBRT. It posits that the economic elite can possess a significant degree of power *without* directly influencing the decision-making process. This is so, the argument asserts, because the Government's own standing is largely based on business performance; a failure in the market can easily bring a Government down. Thus, the interests and wishes of the business community will automatically be considered. Such an indirect relationship can be seen to have existed between Douglas and the NZBRT. For instance, Douglas' "more-market" environment needed private sector confidence in order to stimulate economic growth - privatisation was seen as a means to facilitate this; it would send a clear signal to the business community that the Government was serious about improving economic efficiency and significantly reducing the level of public debt. Moreover, the NZBRT had no need for direct contact because Douglas was favourably disposed towards the business community, there was a consistency of thinking between both groups and policy developments between 1985 and December 1987 suggested that privatisation would eventually be implemented.

While Lindblom's explanation provided more of an insight into the Douglas/NZBRT relationship, the amorphic nature of the relationship still remains. Consequently, while we may know that the NZBRT is a powerful interest group which did have some bearing on Douglas' thinking, we still cannot comprehensively explain the process by which this power was secured. This suggests therefore that to simply view policy *effects* as a suitable gauge of political power without understanding the *process* by which it is gained, provides only an partial understanding of the power that groups have in the political system. As the pluralists maintain, power "is best understood as a process, not an effect. Nothing much is learned about the dynamics of this process...by tallying the net gains and losses that result from decision-making."[16]

What Has This Study Captured?

The bureaucratic, bounded rationality and economic elite models have largely failed to accurately quantify how much influence the Treasury and NZBRT had in the formation of the privatisation programme. It can be concluded, therefore, that their utility is limited when attempting to fully explain the political power wielded by these organisations in this case study. However, while analytical limitations have been shown to exist, the process of operationalising the models has raised a number of interesting observations about the concept of political power.

First, the findings in this study illustrate the elusive and frustrating task that is involved when attempting to systematically study political power. As the discussion surrounding the bureaucratic and bounded rationality models showed, these difficulties exist even in cases where there is a close interpersonal relationship as well as a substantial amount of documented evidence. Accordingly, Lamare's remarks seem particularly appropriate:

> The term political power conveys straightforward images of influence, dominance, and control...This apparent simplicity is deceptive, however. It is not an easy task to view the intricacies of social relations through the lens of political power.[17]

The difficulties associated with effectively operationalising the models also served to illustrate the multi-dimensional nature of political power. This study has identified two such dimensions; it is not only confined to interpersonal relationships, but also operates in an environmental context surrounding - if not permeating - any specific set of goals. Such a finding suggests that a number of dimensions may need to be identified in order to more comprehensively understand the power of an individual or group. In the case of this study then, more of a comprehensive analysis was given when the question went beyond asking "*who* governs?" to also incorporate "*what* governs?"[18]

Finally, the limitations of these models suggest that the analysis of power is made more difficult through the absence of antagonistic relationships. It will be recalled from the discussion in chapter one that the notion of power implies the dominance of one over another. As Parenti states:

> [P] ower is the ability to get what one wants...[It] frequently implies the ability to outdo those whose interests conflict with one's own. [Thus] we might expect some degree of competition, and one person's (or group's) gain frequently involves anothers' loss...[19]

However, this study has clearly established that Douglas, the Treasury and NZBRT all independently supported the implementation of a privatisation programme. Accordingly, given the absence of any fundamental conflict, it is not surprising that the political power of the Treasury and NZBRT has been difficult to analyse; there was little need for these groups to muster or utilise what political resources they possessed in order to "convert" Douglas' thinking. He was, as one senior official commented, "already on board." [20]

To conclude. It is argued here that while the decision-making process for the formation of the privatisation programme was decidedly elitist, Douglas was not "captured" by any one group within the elite. This does not mean that the Treasury or NZBRT were not influential. Each organisation has been shown in this study to have impacted upon his thinking to some degree. This suggests therefore that power does not always operate in conflictual relationships; groups do not always need to expend their political resources in order to get what they want. When there is a unity of outlook and purpose, as was the case here, power can be used to reinforce and facilitate, rather than to dominate.

Given this observation, it may be more accurate to view the concept of power here in a collective, rather than individualistic sense. Fundamentally, the real political power lay not with the Treasury or NZBRT *per se*. Rather, it resulted from three of society's most powerful institutions - the Government, Bureaucracy and business elite - holding a similar ideological outlook, thereby creating a "supply-side economic consensus."[21] Consequently, the economy was changed with extraordinary rapidity as no other group could effectively counter the prevailing orthodoxy. If they tried- as the unions did - the Government, Treasury and NZBRT simply portrayed them as self-serving, and short-sighted. As Jesson observes:

> In the mid-1980s, a unity of purpose developed between politics, business and the state bureaucracy, creating a network of interconnections and meeting little effective opposition. Conditions of radical change occurred simultaneously in the business, bureaucratic and political spheres, resulting in a momentum that was temporarily irreversible. [22]

Accordingly, the conflict, as such, did not occur between the members of this elite. Rather, it was between this elite and those less powerful groups in society who opposed the free-market ideals that have now become so entrenched within New Zealand society.

Endnotes:

1 Geoffrey Palmer., Unbridled Power: An Interpretation of New Zealand's Constitution and Government , (Auckland: Oxford University Press, 1987), p.7.

2 Sue Piper., Quoted in David Neilson., (Ed.) Private Power or Public Interest? Widening the Debate on Privatisation, (Palmerston North: The Dunmore Press,1989), p.15.

3 Refer to the discussion on pluralism in chapter one.

4 For a good account of what these "checks and balances" consist of see, for instance, Geoffrey Palmer., Unbridled Power , pp.12-23.

5 Ibid., p.15.

6 Ibid.

7 Ibid.

8 John Mulgan., "The Changing Electoral Mandate", in Martin Holland., & Jonathan Boston., (Eds.) The Fourth Labour Government: Politics and Policy in New Zealand, Second edition. (Auckland: University Press, 1990), p.11.

9 Ibid., p.15.

10 Ibid., p.18.

11 Ibid.

12 Ibid., p.19.

13 Roger Douglas., & Louise Callan., Toward Prosperity , (Auckland: David Bateman, 1987), p.7. Quoted in Brian Easton., (Ed.) The making of Rogernomics , (Auckland: Auckland University Press), p.173.

14 Mulgan., p.20.

15 Palmer., p.19.

16 James Lamare., What Rules America? (St. Paul: West Publishing, 1988), p.79

17 Ibid., p.72.

18 Michael Parenti., Power and the Powerless , (New York: St. Martin's, 1978), p.12.

19 Ibid., pp. 4-5.

20 Murdo Beattie., Wellington, 15 October, 1990.

21 For a good discussion on this consensus, see Brian Roper., "Limits to the State: Economic Crisis, the Politics of Business and Supply-side Economic Policy in New

continued...

Zealand", Paper delivered at the APSA Annual Conference, University of New South Wales, Sydney, September, 1989, pp.56-65.

22 Bruce Jesson et al., "The Libertarian Right", in Revival of the Right: New Zealand Politics in the 1980s , (Auckland: Heinemann Reed, 1988), p.44.

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Interviews:

The following is a list of all those persons interviewed during the course of this enquiry. All face to face interviews were conducted in Wellington. The details supplied below include the name and position of the people in question, together with the date(s) of the interview(s).

Mr Doug Andrew., *Manager, Taxation Policy Branch* , the Treasury. Formerly a Treasury adviser seconded to the Opposition Leader's Office.
Wednesday 8 August and Friday 10 August.

Mr Murdo Beattie., *Manager, Investment Banking* , Fay & Richwhite Ltd. Former Executive Adviser to Roger Douglas.
Monday 6 August and Monday 15 October.

Mr Bevin Burgess., *Former Press Secretary* to Roger Douglas. (Phone Interview).
Monday 30 July.

Mr John Chetwin., *Assistant Secretary* , the Treasury.
Wednesday 13 June, Thursday 9 August and Tuesday 16 October.

Mr Colin Clark., *General Secretary* , Public Service Association.
Thursday 23 August.

Mr Roger Douglas., *Former Minister of Finance.*
Wednesday 8 August.

Mr Brian Easton., *Economic Consultant* .
Wednesday 13 June and Friday 10 August.

Mr Terry Hall., (Phone Interview). *Business Editor* , The Dominion.
Monday 15 October.

Mr Peter Harris., *Director of Technical Services* , Council of Trade Unions.
Wednesday 13 June.

Mr Roger Kerr., *Executive Director* , New Zealand Business Roundtable.
Tuesday 16 October.

Mr Allistair Morrison., *Senior Feature Writer* , The Dominion. Wednesday 17 October.

Mr Hugh Oliver., *Research Officer* , Public Service Association.
Thursday 5 April and Monday 6 August.

Mr Richard Shallcrass., *Manager, Industries Branch* , The Treasury.
Monday 6 August.

Mr Geoff Swier., *State Owned Enterprises Advisory Unit.* Formerly an adviser in the Opposition Research Unit.
Thursday 9 August and Monday 15 October.

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